

GAO

United States General Accounting Office

Report to the Congress

March 1997

# ADDRESSING THE DEFICIT

## Budgetary Implications of Selected GAO Work for Fiscal Year 1998



### DISTRIBUTION STATEMENT A

Approved for public release;  
Distribution Unlimited

19970410 067

Comptroller General  
of the United States

B-274810

March 14, 1997

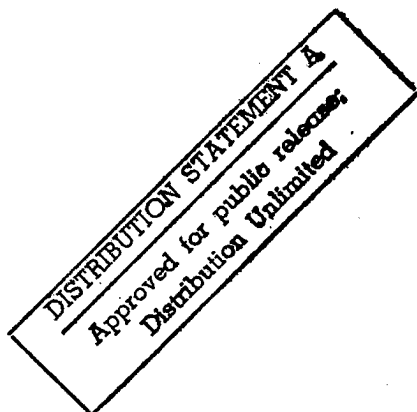
To the President of the Senate and  
the Speaker of the House of Representatives

This report is part of our continuing effort to help the Congress identify options that could be used to reduce the deficit.<sup>1</sup> It updates our previous work in this area with new information and systematically identifies in a single document the budgetary implications of selected program reforms discussed in our work but not yet implemented or enacted. Where available, budgetary savings estimates provided by the Congressional Budget Office (CBO) or the Joint Committee on Taxation (JCT) are presented for each of the options.

This year's report contains 147 options. Nearly half of these options—71—are new to this year's report; the remainder are updated versions of options that appeared in last year's report. To update last year's options, we reviewed and analyzed congressional and agency actions taken over the past year that affected the substantive content of the option and/or its likely savings. In fact, some options from last year's report were not included in this year's report (see appendix IV) because the Congress has already addressed the relevant issues. The remaining options from last year's report have been updated and modified to reflect recent congressional or agency actions.

All of the options are based on key findings and issues developed in our audits and evaluations. Some of the options reflect our recommendations. Others do not, but rather represent one way to address, in a budgetary context, some of the significant problems identified in our reviews of federal programs and activities. The Congress has many available options for dealing with the deficit. Inclusion of a specific option in this report does not mean that we endorse it as the only or most feasible approach, or

<sup>1</sup>See Addressing The Deficit: Updating the Budgetary Implications of Selected GAO Work (GAO/OCG-96-5, June 28, 1996); Deficit Reduction: Opportunities to Address Long-Standing Government Performance Issues (GAO/T-OCG-95-6, September 13, 1995); Addressing The Deficit: Budgetary Implications of Selected GAO Work for Fiscal Year 1996 (GAO/OCG-95-2, March 15, 1995); and Addressing The Deficit: Budgetary Implications of Selected GAO Work (GAO/OCG-94-3, March 11, 1994).



---

that other options are not also appropriate for consideration by the Congress.<sup>2</sup>

This report is divided into four appendixes. Appendix I discusses the conventions used to provide estimates of cost savings or additional revenues. As in our previous report, appendix II provides for congressional consideration an analytical framework of individual options. This framework provides one set of criteria that may be used to assess goals, scope, and approaches for delivering federal programs. It is organized around the following three broad themes:

- reassess objectives, that is, reconsider whether to terminate or revise services and programs provided;
- redefine beneficiaries, that is, reconsider who pays for or benefits from a particular program; and
- improve efficiency, that is, reconsider how a program or service is provided.

Appendix III presents narrative descriptions of the options, organized by budget function and receipts. As mentioned above, appendix IV lists options from last year's report that were not updated for this year's volume.

Although we derived the options from our existing body of work, there are similarities with other deficit reduction proposals. For example, some options contained in this report have also been included in past editions of CBO's annual publication, Reducing the Deficit: Spending and Revenue Options, House and Senate Budget Resolution proposals, and the President's annual budget submission.

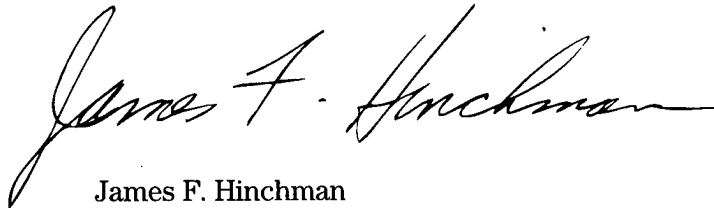
We are sending copies of this report to the appropriate congressional committees and every Member of the Congress. Copies will be made available to others upon request.

---

<sup>2</sup>Under the Budget Enforcement Act (BEA), as amended, the spending and revenue options included in this report could be used either to reduce the deficit or to free up funds for other programs. Under the pay-as-you-go (PAYGO) rules of BEA, savings from direct spending programs (entitlement and mandatory programs) or revenue options would reduce the deficit unless these savings were used to offset either direct spending program expansions or tax cuts. For discretionary spending programs, savings from changes would contribute to additional deficit reduction if BEA caps on discretionary spending were lowered; otherwise, the savings would be available for use in other discretionary programs.

---

This report was prepared under the direction of Paul L. Posner, Director for Budget Issues, who may be reached at (202) 512-9573. Specific questions about individual options may be directed to the GAO contact listed with each option. Major contributors to this report are listed in appendix V.

A handwritten signature in black ink, reading "James F. Hinchman". The signature is fluid and cursive, with the first name "James" and last name "Hinchman" clearly legible.

James F. Hinchman  
Acting Comptroller General  
of the United States

# Contents

Letter	1
Appendix I Explanation of Conventions Used to Estimate Savings and Revenue Gains	12
Appendix II A Framework for Deficit Reduction	14
Reassess Objectives	14
Redefine Beneficiaries	15
Improve Efficiency	15
Appendix III Options for Deficit Reduction	17
050 National Defense	18
Defense Infrastructure Reform	19
Fiscal Year 1998 Defense Operation and Maintenance Budget	21
Continental Air Defense	23
Carrier Battle Group Expansions and Upgrades	25
Army's Comanche Helicopter Program	27
F/A-18E/F Fighter	29
F-22 Fighter	31
Air Force Bomber Force Requirements	33
Air Force Fighter Squadrons	38
C-17 Strategic Airlift	40
Nuclear Submarine Force Reductions	42
Major Weapon System Warranty Law	44
Base Alignment and Closure Accounts	46
Defense Inventories Reform	48
Defense Transportation Restructuring	53
Depot Maintenance Program Excess Capacity	55
Military Exchange Stores Consolidation	59
Budgeted Civilian Personnel Requirements	61
Convert Some Support Officer Positions to Civilian Status	63
Attrition of Enlisted Personnel From the Military Services	65
Army National Guard Divisions	68
Junior Reserve Officers' Training Corps	70
DOD's Acquisition Workforce	72

DOD's Finance and Accounting Infrastructure	74
DOD's Training Infrastructure	77
DOD's Transportation Migration Systems	79
DOD's Materiel Management Migration Systems	81
DOD's Bulk Fuel Budgeting	83
Navy Financial Management of Operating Materials and Supplies	85
Copayments for Care in Military Treatment Facilities	87
Administering Defense Health Care	89
Uniformed Services University of the Health Sciences	91
Uniformed Services Treatment Facilities	94
Department of Energy's Procurement of Laboratory Testing Services	97
<b>150 International Affairs</b>	99
USAID's Housing Guaranty Program	100
Excess Real Estate at Overseas Diplomatic Posts	102
Overseas Diplomatic Posts	105
State Department Functions and Activities	108
State Department Support Functions	110
TV Marti	112
USIA Exchange Programs	114
USIA Overseas Posts, Activities, and Cultural Centers	116
International Broadcasting	120
Risk-Based Exposure Fees for Export-Import Bank	122
Export-Import Bank Programs	124
<b>250 General Science, Space, and Technology</b>	126
Space Station	127
NASA's Earth Observing System Data and Information System	130
<b>270 Energy</b>	132
Clean Coal Technology Funds	133
Department of Energy's National Laboratories	135
Use of Carryover Balances to Offset Future Budget Needs	138
Department of Energy's Overtime Costs	140
Department of Energy's Cleanup Studies	142
Department of Energy's Contractors' Separation Benefits Package	144
Federal Exemption to Certain State Taxes for Department of Energy's Operating Contractors	146
Nuclear Waste Disposal Fees	148
Power Marketing Administrations Cost Recovery	149
Federal Investment in Successfully Commercialized Technologies	151
<b>300 Natural Resources and Environment</b>	153

Federal Land Policies	154
Collaborative Federal Land Management Approach	157
Federal Timber Sales	159
Fair Market Value for Natural Resources	161
Recreation Fees at Federal Sites	163
Hardrock Mining Royalties	165
Natural Resources Revenue Sharing	167
Federal Water Policies	169
Water Transfers	173
Pollution Fees and Taxes	174
Hazardous Waste Cleanup Cost Recovery	176
Non-Time-Critical Removals in Superfund Cleanups	178
Excess Funds in Superfund Contracts	180
Weather Service Modernization Project	182
<b>350 Agriculture</b>	185
Food Aid: Public Law 480 Title I Program	186
The Market Access Program	189
Export Credit Guarantee Programs	191
Agricultural Research Service Funding	194
USDA Telecommunications and Information Systems	196
<b>370 Commerce and Housing Credit</b>	198
Rural Housing Loans Interest Recapture	199
Use of Sampling for the 2000 Decennial Census	201
<b>400 Transportation</b>	204
State Share of State-Supported Intercity Rail Passenger Service	205
Amtrak Subsidies	207
Military Airport Program Funds	210
Cargo Preference Laws	212
Fees Paid by Foreign-Flagged Cruise Ships	215
Department of Transportation's Oversight of Its University Research	217
Fees for Certification of New Airlines	219
Fees for Registering Aircraft	221
<b>450 Community and Regional Development</b>	223
Eligibility for Federal Emergency Management Agency Public Assistance	224
<b>500 Education, Training, Employment, and Social Services</b>	226
Consolidation of Student Aid Programs	227
Consolidation of Employment and Training Programs	229
<b>550 Health</b>	233
Prescription Drug and Medicaid Fraud	234

Medicaid: States Use Illusory Approaches to Shift Program Costs to the Federal Government	236
Medicaid Formula: Fairness Could Be Improved	238
Automated Drug Utilization Reviews	240
Payments to Rural Health Clinics	243
Public Health Service Commissioned Corps	245
Unified Risk-Based Food Safety System	248
<b>570 Medicare</b>	251
Teaching Hospitals' Medicare Payments	252
Medicare Program Safeguards	254
Medicare Payments for High Technology Procedures	256
Medicare Rate-Setting Methods for HMOs	258
Medicare Incentive Payments in Health Care Shortage Areas	260
<b>600 Income Security</b>	262
Fees for Non-Temporary Assistance to Needy Families (TANF)	263
Child Support Enforcement Services	
Automated Child Support Enforcement Systems	265
Funding for State Automated Welfare Systems	267
Benefits for Retirement Eligible FECA Beneficiaries	269
Workers' Compensation Cases Involving Third Parties	271
Workers' Compensation Payments	273
Resource Transfers to Qualify for SSI	275
Return-to-Work Strategies for People With Disabilities	277
Reporting of Federal Employee Payroll Data to State	279
Unemployment Insurance Programs	
<b>650 Social Security</b>	281
The PASS Work Incentive Program	282
<b>700 Veterans Benefits and Services</b>	284
Veterans' Disability Compensation for Nonservice Connected Diseases	285
Approving Education and Training Programs for Veterans	286
Cost Sharing for Veterans' Long-Term Care	288
Effective VA Hospital Preadmission Certification	290
Construction of Veterans' Medical Facilities	292
Underused VA Hospitals	295
VA's Medical Care Account Growth Rate	297
Enrollment in VA Health Care System	300
Outpatient Pharmacy Costs	302
Sunset Date on VA's Income Verification Program	304
<b>750 Administration of Justice</b>	306
Border Patrol Resources	307

<b>800 General Government,</b>	310
<b>900 Net Interest, and 999 Multiple</b>	
General Services Administration Supply Depot System	311
Judiciary's Long-Range Space Planning System	313
The 1-Dollar Coin	315
Commemorative Coins	317
Federal Reserve Operations	318
Premium Payments to Employees While on Leave	321
Davis-Bacon Act Reform	322
Formula-Based Grant Programs	325
Federal Grants	328
Federal Travel Processing	331
<b>Receipts</b>	333
Tax Treatment of Health Insurance Premiums	334
Information Reporting on Forgiven Debts	336
Administration of the Tax Deduction for Real Estate Taxes	338
Corporate Tax Document Matching	340
Tax Treatment of Interest Earned on Life Insurance Policies and Deferred Annuities	341
Federal Agency Reporting to the Internal Revenue Service	343
Independent Contractor Tax Compliance	344
Deductibility of Home Equity Loan Interest	346
Internal Revenue Service Staff Utilization	348
Collecting Gasoline Excise Taxes	350
Computing Excise Tax Bases	351
Industrial Development Bonds Targeting	352
Highway User Fees on Heavy Trucks	354
Taxation of Additives to Diesel Fuel	356
Electronic Filing of Tax Returns	358

<b>Appendix IV</b>	360
<b>Options Not Updated for This Report</b>	

<b>Appendix V</b>	363
<b>Major Contributors to This Report</b>	

**Abbreviations**

AFDC	Aid to Families With Dependent Children
AIP	Airport Improvement Program

---

## Contents

---

AOC	Administrative Office of the U.S. Courts
ARS	Agricultural Research Service
AWIPS	Advanced Weather Interactive Processing System
BBS	broad-based, sustainable
BEA	Budget Enforcement Act
BLM	Bureau of Land Management
BRAC	Base Realignment and Closure
BUR	bottom-up review
CBO	Congressional Budget Office
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CDR	continuing disability review
CFO	Chief Financial Officer
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
COP	continuation-of-pay
CVP	Central Valley Project
DBOF	Defense Business Operations Fund
DFAS	Defense Finance and Accounting Service
DFSC	Defense Fuel Supply Center
DI	Disability Insurance
DLA	Defense Logistics Agency
DOD	Department of Defense
DOE	Department of Energy
DOT	Department of Transportation
DUR	drug utilization review
EDWAA	Economic Dislocation and Worker Adjustment Assistance
EM	Environmental Management
EOS	Earth Observing System
EOSDIS	Earth Observing System Data and Information System
EPA	Environmental Protection Agency
FAIR	Federal Agriculture Improvement and Reform Act of 1996
FAA	Federal Aviation Administration
FAS	Foreign Agricultural Service
FDIC	Federal Deposit Insurance Corporation
FDSL	Federal Direct Student Loan
FECA	Federal Employees' Compensation Act
FEMA	Federal Emergency Management Agency
FFEL	Federal Family Education Loan

FHWA	Federal Highway Administration
FSN	foreign service national
FY	fiscal year
GAO	General Accounting Office
GPS	global positioning systems
GSA	General Services Administration
HACCP	Hazard Analysis and Critical Control Point
HCFA	Health Care Financing Administration
HHS	Department of Health and Human Services
HMO	health maintenance organization
HPSA	Health Professional Shortage Area
HUD	Department of Housing and Urban Development
IDB	industrial development bond
IFAD	International Fund for Agricultural Development
INS	Immigration and Naturalization Service
IRS	Internal Revenue Service
JCS	Joint Chief of Staff
JCT	Joint Committee on Taxation
JFMIP	Joint Financial Management Improvement Program
JROTC	Junior Reserve Officers' Training Corps
JTPA	Job Training Partnership Act
LRIP	low-rate initial production
MAP	Military Airport Program
MIP	Medicare Incentive Payment
MRI	magnetic resonance imaging
MTMC	Military Traffic Management Command
MWR	morale, welfare, and recreation
NASA	National Aeronautics and Space Administration
NOAA	National Oceanic and Atmospheric Administration
NORAD	North American Aerospace Defense Command
NTC	non-time-critical
NWS	National Weather Service
OCSE	Office of Child Support Enforcement
OMB	Office of Management and Budget
O&M	operation and maintenance
OST	Office of the Secretary
OTC	over the counter
PASS	plan for achieving self-support
PAYGO	pay-as-you-go
PHS	Public Health Service
PILT	Payment in Lieu of Taxes

---

Contents

---

PMA	Power Marketing Administration
RHC	Rural Health Clinic
RCRA	Resource Conservation and Recovery Act
RFA	Radio Free Asia
RFE/RL	Radio Free Europe/Radio Liberty
RHS	Rural Housing Service
RTC	Resolution Trust Corporation
SAA	state approving agency
SBU	strategic business unit
SSA	Social Security Administration
SSI	Supplemental Security Income
SSN	nuclear-powered attack submarine
TANF	Temporary Assistance for Needy Families
TDY	temporary duty
TRICARE	DOD's managed health care system
UI	unemployment insurance
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
USIA	United States Information Agency
USTF	Uniformed Services Treatment Facility
USTRANSCOM	U.S. Transportation Command
USUHS	Uniformed Services University of the Health Sciences
VA	Department of Veterans Affairs
VOA	Voice of America

# Explanation of Conventions Used to Estimate Savings and Revenue Gains

Cost estimates for many of our options were provided by CBO and JCT. As in last year's report, if specific estimates could not be provided, a brief explanation is included with the option. Where estimates are provided, the following conventions were followed:<sup>3</sup>

- For revenue estimates, the increase in collections reflects that which would occur, over and above that due under current law, if the option were enacted.
- For direct spending programs, estimated savings show the difference between what the program would cost under the CBO baseline, which assumes continuation of current law, and what it would cost after the suggested modification.
- For nondefense discretionary spending programs, two estimates are provided. One estimate is of savings compared to the actual fiscal year 1997 appropriations increased for projected inflation. A second estimate is of savings compared to the fiscal year 1997 appropriations in nominal terms (held constant for the next 4 years).
- For defense discretionary spending programs, estimates are of savings compared to the 1997 Defense Plan that CBO uses for its defense discretionary estimates. CBO uses this plan because it provides the programmatic detail necessary to estimate the effects of changes in force structures and weapons systems.

Specific assumptions made in estimating individual options are noted in the option narratives in appendix III.

Subsequent savings and revenue estimates provided by CBO and JCT may not match exactly those contained in this report. Differences in the details of specific proposals, changes in assumptions which underlie the analyses, and updated baselines can all lead to significant differences in estimates. Also, a few of our options—involving sales of real estate and other government-owned property—constitute asset sales. Under the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, proceeds from asset sales are not counted in determining compliance with the discretionary spending limits or PAYGO requirements. In order to provide policymakers the fullest possible picture of the budgetary implications of our work, we have included those options which constitute asset sales. They are clearly identified as such.

<sup>3</sup>For a complete discussion of the uses and caveats of the CBO estimates, see CBO's August 1996 report, Reducing the Deficit: Spending and Revenue Options.

---

**Appendix I**  
**Explanation of Conventions Used to**  
**Estimate Savings and Revenue Gains**

---

Finally, some of the options could not be scored by CBO or JCT under current scorekeeping conventions. Several of these involve management improvements that we believe can contribute to solving the deficit problem but whose effects are too indirect for estimation purposes. A few options are not estimated because they concern future choices about spending that is not currently in the baseline used to calculate annual spending and revenue. In other cases, savings are likely to come in years beyond the 5-year estimation period that CBO uses.

---

# A Framework for Deficit Reduction

---

The history of deficit reduction efforts suggests that basing decisions on explicit policy rationales, rather than considering separate program-by-program assessments, may improve chances for success. A consistent and systematic framework can be an effective means to formulate and package broad-based deficit reduction proposals. Also, this kind of approach can be used regardless of any other budgetary control mechanism (for example, discretionary spending limits or sequestration procedures) or any given level of desired deficit reduction.

GAO's deficit reduction framework consists of three broad themes: reassess objectives, redefine beneficiaries, and improve efficiency and accuracy. These three fundamental strategies are based on an implicit set of decision rules that encourage decisionmakers to think systematically, within an ever-changing environment, about

- what services the government provides or should continue to provide,
- for whom these services are or should be provided, and
- how services are or should be provided.

By using a policy-oriented framework such as this, choices can be made more clearly and the results become more defensible.

---

## Reassess Objectives

The first theme within our deficit reduction framework focuses on the objectives for federal programs or services. Our premise is that periodically reconsidering a program's original purpose, the conditions under which it continues to operate, and its cost-effectiveness, is appropriate. Our work suggests three decision rules which illustrate this strategy.

- Programs can be considered for termination if they have succeeded in accomplishing their intended objectives or if it is determined that the programs have persistently failed to accomplish their objectives.
- Programs can be considered for termination or revision when underlying conditions change so that original objectives may no longer be valid.
- Programs can be reexamined when cost estimates increase significantly above those associated with original objectives, when benefits fall substantially below original expectations, or both.

For example, the Public Law 480 Title I Food Aid Program allows U.S. agricultural commodities to be sold to developing countries on long-term credit at below-market interest rates. The current goal of the program is to

promote U.S. foreign policy by enhancing the food security of developing countries. The program is also designed to expand markets for U.S. agricultural commodities. However, multiple and sometimes competing objectives, as well as contradictory program requirements, have hampered the program, and its contribution to long-term, foreign market development for U.S. agricultural commodities has not been demonstrated.

---

## Redefine Beneficiaries

The second theme within our deficit reduction framework focuses on the intended beneficiaries for federal programs or services. The Congress originally defines the intended audience for any program or service based on some perception of eligibility and/or need. To better reflect and target increasingly limited resources, these definitions can be periodically reviewed and revised. Our body of work suggests four decision rules that illustrate this strategy.

- Formulas for a variety of grant programs to state and local governments can be revised to better reflect the fiscal capacity of the recipient jurisdiction. This strategy could reduce overall funding demands while simultaneously redistributing available grant funds so that the most needy receive the same or increased levels of support.
- Eligibility rules can be revised, without altering the objectives of the program or service.
- Fees can be targeted at individuals, groups, or industries that directly benefit from federal programs. Also, existing charges can be increased so that a greater portion of a program's cost is shared by the direct beneficiaries.
- Tax preferences can be narrowed or eliminated by revising eligibility criteria or limiting the maximum amount of preference allowable.

For example, at a time when federal domestic discretionary resources are constrained, better targeting of grant formulas offers a strategy to bring down federal outlays by concentrating reductions on wealthier localities with fewer needs and greater capacity to absorb cuts. Federal grant formulas could be redesigned to lower federal costs by disproportionately reducing federal funds to states and localities with the strongest tax bases and fewer needs, as shown in GAO's option on formula grants.

---

## Improve Efficiency

The third theme within our deficit reduction framework addresses how the program or service is delivered. This strategy suggests that focusing on

the approach or delivery method can significantly reduce spending or increase collections. Our body of work suggests five decision rules which illustrate this strategy.

- Reorganizing programs or activities with similar objectives and audiences can eliminate duplication and improve operational efficiency.
- Using reengineering, benchmarking, streamlining and other process change techniques can reduce the cost of delivering services and programs.
- Using performance measurement and generally improving the accuracy of available program information can promote accountability and effectiveness and reduce errors.
- Improving collection methods and ensuring that all revenues and debts owed are collected can increase federal revenues.
- Establishing market-based prices can help the government recover the cost of providing services while encouraging the best use of the government's resources.

As an illustration of this theme, GAO has identified over 150 federal programs and funding streams providing employment and training assistance. These programs are spread across 15 departments and independent agencies with a total budget of about \$20 billion. Many of these programs have similar goals and provide the same services to similar populations using separate, parallel delivery structures. Consolidating these programs where it is appropriate can reduce administrative costs as well as increase efficiencies in service delivery. GAO's option illustrates how opportunities to improve efficiency and flexibility in employment and training programs can provide a basis for reducing program funding.

---

# Options for Deficit Reduction

---

---

This appendix describes each of GAO's options for deficit reduction, organized by budget function and receipts. For each option, we provide, when relevant, information about the authorizing committee, appropriations subcommittee, primary agency, budget account, spending type, budget subfunction, and framework theme. We then provide a summary and description of budgetary implications, which is followed by an estimate (when available) of savings or revenue increase, relevant GAO reports, and a GAO contact.

---

## 050 National Defense

- Defense Infrastructure Reform
- Fiscal Year 1998 Defense Operation and Maintenance Budget
- Continental Air Defense
- Carrier Battle Group Expansions and Upgrades
- Army's Comanche Helicopter Program
- F/A-18E/F Fighter
- F-22 Fighter
- Air Force Bomber Force Requirements
- Air Force Fighter Squadrons
- C-17 Strategic Airlift
- Nuclear Submarine Force Reductions
- Major Weapon System Warranty Law
- Base Alignment and Closure Accounts
- Defense Inventories Reform
- Defense Transportation Restructuring
- Depot Maintenance Program Excess Capacity
- Military Exchange Stores Consolidation
- Budgeted Civilian Personnel Requirements
- Convert Some Support Officer Positions to Civilian Status
- Attrition of Enlisted Personnel from the Military Services
- Army National Guard Divisions
- Junior Reserve Officers' Training Corps
- DOD's Acquisition Workforce
- DOD's Finance and Accounting Infrastructure
- DOD's Training Infrastructure
- DOD's Transportation Migration Systems
- DOD's Materiel Management Migration Systems
- DOD's Bulk Fuel Budgeting
- Navy Financial Management of Operating Materials and Supplies
- Copayments for Care in Military Treatment Facilities
- Administering Defense Health Care
- Uniformed Services University of the Health Sciences
- Uniformed Services Treatment Facilities
- Department of Energy's Procurement of Laboratory Testing Services

## Option: Defense Infrastructure Reform

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

Although the Department of Defense (DOD) has in recent years undergone substantial downsizing in funding, personnel, and force structure, commensurate infrastructure support reductions have not been achieved. For fiscal 1997, DOD estimates that about \$152 billion, or 60 percent of the Defense budget will still be needed for infrastructure requirements which include installation support, training, medical care, logistics, force management, acquisition infrastructure, and personnel. Despite progress in reducing excess infrastructure through the Base Realignment and Closure (BRAC) rounds, it is generally recognized that much excess capacity will remain.

Significant budget reductions could be achieved by streamlining the command structure of the remaining forces; sharing medical facilities and services; consolidating depots and shipyards; reforming acquisition processes; consolidating and eliminating research, development, and training facilities; using simulators for training and exercises; and reducing dependence on government-owned housing.

Savings for this option cannot be fully estimated until a comprehensive consolidation and downsizing plan is specified. However, in an April 1996 report, GAO identified some specific options for reducing defense infrastructure spending.

## Related GAO Products

Defense Infrastructure (GAO/HR-97-7, February 1997).

Defense Acquisition Infrastructure: Changes in RDT&E Laboratories and Centers (GAO/NSIAD-96-221BR, September 13, 1996).

---

Military Bases: Update on the Status of Bases Closed in 1988, 1991, and 1993 (GAO/NSIAD-96-149, August 6, 1996).

Defense Infrastructure: Costs Projected to Increase Between 1997 and 2001 (GAO/NSIAD-96-174, May 31, 1996).

Military Bases: Opportunities for Savings in Installation Support Costs Are Being Missed (GAO/NSIAD-96-108, April 23, 1996).

Military Bases: Closure and Realignment Savings are Significant, but Not Easily Quantified (GAO/NSIAD-96-67, April 8, 1996).

Defense Infrastructure: Budget Estimates for 1996-2001 Offer Little Savings for Modernization (GAO/NSIAD-96-131, April 4, 1996).

DOD Training: Opportunities To Reduce the Training Infrastructure (GAO/NSIAD-96-96, March 29, 1996).

Military Bases: Analysis of DOD's 1995 Process and Recommendations for Closure and Realignment (GAO/NSIAD-95-133, April 14, 1995).

Defense Infrastructure: Enhancing Performance Through Better Business Practices (GAO/T-NSIAD/AIMD-95-126, March 23, 1995).

---

GAO Contact

David R. Warren, (202) 512-8412

## Option: Fiscal Year 1998 Defense Operation and Maintenance Budget

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

The military services' operation and maintenance (O&M) accounts are used to fund a wide range of military and support activities including training, purchasing spare and repair parts, and paying civilian personnel.

GAO analysis of selected O&M requests for fiscal year 1997 showed that the budget for that year could have been reduced by \$3.4 billion without damaging defense operations and capabilities. The largest potential reductions, each for over \$180 million, were associated with improved inventory management, excess bulk fuel requirements, excess unobligated funds, storage of unneeded aircraft, O&M pass-throughs to the Defense Business Operations Fund (DBOF), overstated civilian personnel requirements, and funds requested for ground operation tempo that are not needed for training purposes.<sup>4</sup>

Based on GAO's analysis regarding potential savings in the fiscal year 1997 O&M budget, the Congress may wish to consider reductions of a similar magnitude, \$3.4 billion, when formulating fiscal year 1998 appropriations for O&M accounts. It is important for the Congress to be aware that savings for this option include savings for other options involving the individual services' O&M accounts since the problems GAO identified persist. CBO estimated the following 5-year savings.

<sup>4</sup>Specific options related to bulk fuel (see "DOD's Bulk Fuel Budgeting"), civilian personnel reductions (see "Budgeted Civilian Personnel Requirements"), and Army spare parts (see "Defense Inventories Reform") are contained in this report. Therefore, the projected savings from these specific options should not be added to the \$3.4 billion in potential savings shown here.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	3,400	0	0	0	0
Outlays	2,530	677	112	37	17

Source: Congressional Budget Office.

---

**Related GAO Products**

1997 DOD Budget: Potential Reductions to Operation and Maintenance Programs (GAO/NSIAD-96-220, September 18, 1996).

1996 DOD Budget: Potential Reductions to Operation and Maintenance Programs (GAO/NSIAD-95-200BR, September 26, 1995).

1995 Budget: Potential Reductions to the Operation and Maintenance Programs (GAO/NSIAD-94-246BR, September 6, 1994).

---

**GAO Contact**

Mark E. Gebicke, (202) 512-5140

## Option: Continental Air Defense

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

The continental air defense mission evolved during the Cold War to detect and intercept Soviet bombers attacking North America via the North Pole. The force that carries out that mission is within the North American Aerospace Defense Command (NORAD), which is a joint U.S. and Canadian command. As of the beginning of fiscal year 1997, the force consisted of 150 primary aircraft (Air National Guard F-15 and F-16 aircraft in 10 dedicated units which stand alert for NORAD).<sup>5</sup> The Air Force budgeted about \$345 million in fiscal year 1997, to operate and support the continental air defense force.

The former Soviet Union no longer poses a significant threat of a bomber attack on the continental United States. Further, internal problems within Russia and other former Soviet Union countries have extended the time it would take them to return to previous levels of military readiness and capabilities. Reflecting these changing realities, the Chairman of the Joint Chiefs of Staff determined in 1993 that the United States no longer needed a large, dedicated air defense force and that the dedicated force could be significantly reduced or eliminated.

Since the threat of a Soviet-style air attack against the United States has largely disappeared, the air defense force now focuses its activities on air sovereignty missions. These missions provide surveillance and control of territorial airspace, including activities such as assisting aircraft in distress or intercepting aircraft as part of antidrug smuggling efforts. However, active and reserve general-purpose and training forces could perform this mission because they (1) have comparable or better aircraft, (2) are located at or near existing air defense bases, and (3) have pilots who

<sup>5</sup>DOD's 1997 plan reduced the number of dedicated continental air defense Air National Guard aircraft from 150 to 90.

possess similar skills or who could acquire the necessary skills used by air defense and air sovereignty pilots.

Based on our audit work, GAO has concluded that significant savings could be achieved by dual-tasking the active, reserve, and training forces. If the dedicated continental air defense force were eliminated, the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	153	314	322	331	341
Outlays	126	278	309	322	333

Source: Congressional Budget Office.

Related GAO Product

Continental Air Defense: A Dedicated Force Is No Longer Needed  
(GAO/NSIAD-94-76, May 3, 1994).

GAO Contact

Richard Davis, (202) 512-3504

## Option: Carrier Battle Group Expansions and Upgrades

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Operation and Maintenance, Navy (17-1804) Military Personnel, Navy (17-1453) Procurement-funded Replenishment Spares (17-1506)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

Aircraft carrier battle groups are the centerpiece of the Navy's surface force and significantly influence the size, composition, and cost of the fleet. The annualized cost to acquire, operate, and support a single Navy carrier battle group is from \$1.7 billion to \$2 billion (in fiscal year 1996 dollars) and will continue to increase. The Navy is embarking on several costly carrier-related programs—procuring another carrier, refueling existing carriers, and replacing/upgrading combat aircraft.

GAO's analysis indicates that there are opportunities to use less costly options to satisfy many of the carrier battle groups' traditional roles without unreasonably increasing the risk that U.S. national security would be threatened. For example, one less costly option would be to rely more on increasingly capable surface combatants, such as cruisers, destroyers, or frigates, for overseas presence and crises response. If the Congress chose to retire one aircraft carrier and one active air wing in 1998, the following savings could be achieved.

### Five-Year Savings

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	350	710	1,170	900	6,580
Outlays	260	580	690	840	1,190

Note: Estimate includes savings from not buying a new carrier in fiscal year 2002.

Source: Congressional Budget Office.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Related GAO Products**

Navy's Aircraft Carrier Program: Investment Strategy Options  
(GAO/NSIAD-95-17, January 1, 1995).

Navy Carrier Battle Groups: The Structure and Affordability of the Future Force (GAO/NSIAD-93-74, February 25, 1993).

---

**GAO Contact**

Richard Davis, (202) 512-3504

## Option: Army's Comanche Helicopter Program

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	Research, Development, Test and Evaluation, Army (21-2040)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Reassess objectives

The Comanche helicopter is to replace the Vietnam-era scout and attack helicopters that the Army considers incapable of meeting existing or future requirements. The Comanche's overall program cost has grown to approximately \$50 billion, with an estimated program unit cost of about \$39 million. Anticipated cost increases and other unresolved technical risks indicate that future cost growth is likely. In December 1994, the Secretary of Defense decided to restructure the Comanche program, reducing program cost by about \$2 billion for fiscal years 1996 through 2001. This action extended the development phase until 2006 and deferred the production decision until then.

Although light attack missions are part of the Army's plan for the Comanche, its lethality is now expected to rival or surpass that of the Apache—the Army's premiere attack helicopter. In addition, as the Army reduces its total helicopter fleet, it plans to modify many that will remain to increase combat capabilities. For example, the Army is arming its scout helicopter, the Kiowa, and modifying 227 basic model Apaches with the Longbow system, which includes a fire control radar with a radar detector and a Hellfire missile with a radio-frequency seeker. These actions, collectively, tend to blur the distinction in roles among the Army's helicopter fleet.

GAO's work has pointed to real and probable development cost increases, uncertain operating and support cost savings, questions about the role of the Comanche compared to other more affordable Army helicopters, and deferral of the production decision. If the Congress would elect to terminate the program, the following savings would be achieved.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	144	384	454	602	650
Outlays	82	268	397	520	607

Source: Congressional Budget Office.

---

**Related GAO Products**

Comanche Helicopter: Testing Needs To Be Completed Prior to Production Decisions (GAO/NSIAD-95-112, May 18, 1995).

Army Aviation: Modernization Strategy Needs To Be Reassessed (GAO/NSIAD-95-9, November 21, 1994).

Comanche Helicopter: Program Needs Reassessment Due To Increased Unit Cost and Other Factors (GAO/NSIAD-92-204, May 27, 1992).

---

**GAO Contact**

Louis J. Rodrigues, (202) 512-4841

## Option: F/A-18E/F Fighter

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	Aircraft Procurement, Navy (17-1506)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Reassess objectives

In 1992, the Navy justified the F/A-18E/F Fighter to correct operational deficiencies that were projected to occur in its F/A-18C/D aircraft. As of December 1995, the total program cost was projected to be almost \$81 billion in then year dollars. In its fiscal year 1996/1997 Biennial Budget, the Navy requested \$236.882 million and \$306.344 million to cover long lead requirements for the procurement of 12 F/A-18E/F aircraft in fiscal year 1997 and 24 aircraft in fiscal year 1998. An F/A-18E/F low rate initial production (LRIP) milestone decision is scheduled for the first quarter of calendar year 1997.

In a report issued in June 1996, GAO concluded that the need for the F/A-18E/F is questionable. Operational deficiencies that in 1992 the Navy stated existed in the current F/A-18C/D either have not materialized as projected or can be corrected with nonstructural changes to the F/A-18C/D. Furthermore, operational improvements that the E/F will have over the C/D would be marginal.

GAO also reported that DOD's \$43.6 million (in fiscal year 1996 dollars) unit recurring flyaway cost<sup>6</sup> for the F/A-18E/F is understated because E/F procurement cost estimates are based on annual (72 aircraft) and total procurement (1,000 aircraft) levels that are overstated. The Congress has indicated that an annual production rate of 72 aircraft is not possible in the current budget environment. Also, total production of 1,000 aircraft is overstated by 340 aircraft—the number of Marine Corps E/Fs that are included in the total buy but which the Corps has decided it will not procure. GAO estimated that lowering the E/F annual production rate to a more realistic level of 36 aircraft and procuring a total of 660 aircraft would increase F/A-18E/F unit costs by about \$10 million to \$53 million in

<sup>6</sup>Recurring flyaway costs include costs related to the production of the basic aircraft and do not include all procurement costs. DOD consistently maintains that these costs are the most appropriate to compare the costs of different aircraft.

fiscal year 1996 dollars. This compares to about \$29.6 million for the current F/A-18C/D.

GAO further reported that procuring 660 C/Ds rather than the E/F would save almost \$17 billion (fiscal year 1996 dollars). Savings would be greater if fewer than 660 C/Ds are needed to maintain Navy tactical aircraft inventories. Near term savings associated with procuring the C/D rather than the E/F would be significant. Through fiscal year 2002 the unit recurring flyaway cost of the E/F averages about \$99.6 million (then-year dollars), or more than three times the \$29.6 million unit recurring flyaway cost of the F/A-18C/D over this same period.

Because continued procurement of the less expensive F/A-18C/D would provide the Navy a capable tactical aircraft, the Congress may wish to reconsider the need to procure the F/A-18E/F. CBO estimates that canceling the program would achieve the following budget savings during the next 5 years.

#### Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	1,812	2,116	2,233	1,654	2,410
Outlays	252	932	1,630	1,886	1,943

Source: Congressional Budget Office.

#### Related GAO Products

Navy Aviation: F/A-18E/F Will Provide Marginal Operational Improvement at High Cost (GAO/NSIAD-96-98, June 18, 1996).

Naval Aviation: F/A-18 E/F Acquisition Strategy (NSIAD-94-194, August 18, 1994).

Naval Aviation: Consider All Alternatives Before Proceeding With the F/A-E/F (NSIAD-93-144, August 27, 1993).

#### GAO Contact

Louis J. Rodrigues, (202) 512-4841

## Option: F-22 Fighter

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	Aircraft Procurement, Air Force (57-3010)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Reassess objectives

The Air Force's F-22 program was initiated in 1981 to replace F-15s and to meet the evolving threat projected for the mid-1990s. Although the Department of Defense (DOD) procurement plans support achievement of initial operational capability in 2004, our reports issued in 1993 and 1994 indicated the need to replace F-15s with F-22s was not urgent. Our reports indicated that potential adversary air forces are expected to include few fighters that have the capability to challenge the F-15—a U.S. frontline fighter.

DOD is currently planning to procure a significant number of F-22s before completing operational tests and evaluations, thereby increasing the cost, schedule, and performance risks within the system.<sup>7</sup> Initial operational tests and evaluations, which provide a valid estimate of expected system operational effectiveness and operational suitability, are not scheduled to be completed until after the Air Force will have committed to procure 76 aircraft involving an investment of nearly \$11 billion. Air Force plans call for procurement of 4 aircraft a year, increasing to 12, 24, and 36 a year before initial operational tests and their evaluation are completed. Many aircraft systems entering production before starting operational testing have required major modification later, which is often costly.

Using DOD guidelines, F-22 program concurrency is high because the F-22 program is scheduled to proceed into low rate initial production well before any operational testing starts. Furthermore, the F-22 program contemplates a higher commitment as a percentage of total production prior to completion of initial operational testing than most modern fighter programs.

<sup>7</sup>In December 1996, the Air Force announced the results of a review of the program by a joint cost estimating team. Significant changes to the program, including changes to the procurement plan, are being considered as a result of that team's report.

Since the need for the F-22 is not urgent, the Congress could choose to restrict production of F-22s to six aircraft in 2000, eight aircraft in 2001, and eight aircraft in 2002 until initial operational tests and evaluations are completed in April 2002. Further, maintaining production quantities at eight or less aircraft per year could defer the purchase of \$282 million of production tooling—\$109 million in fiscal year 2000 to increase production to 12 aircraft per year, \$116 million in fiscal year 2001 to increase production from 12 to 24 aircraft per year, and \$57 million in fiscal year 2002 to increase production from 24 to 36 per year.

If the Congress were to restrict funding in this way and restrict procurement of tooling to limit production to eight aircraft a year, the following budget savings could be achieved during the next 5 years.

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	0	127	1,340	2,608	3,810
Outlays	0	8	114	527	1,332

Source: Congressional Budget Office.

**Related GAO Products**

Combat Air Power: Joint Mission Assessments Needed Before Making Program and Budget Decisions (GAO/NSIAD-96-177, September 20, 1996).

Tactical Aircraft: Concurrency in Development and Production of F-22 Aircraft Should Be Reduced (GAO/NSIAD-95-59, April 19, 1995).

Weapons Acquisition: Low-Rate Initial Production Used to Buy Weapon Systems Prematurely (GAO/NSIAD-95-18, November 21, 1994).

Tactical Aircraft: F-15 Replacement Is Premature as Currently Planned (GAO/NSIAD-94-118, March 25, 1994).

**GAO Contact**

Louis J. Rodrigues, (202) 512-4841

Option:  
Air Force Bomber  
Force Requirements

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

Bombers currently in the force, B-2s, B-1Bs, and B-52Hs, were initially designed and procured by the Department of Defense (DOD) primarily to meet nuclear war-fighting requirements. Since the end of the Cold War, DOD has placed increased emphasis on the role of bombers in future conventional conflicts while reducing the number of bombers significantly from a total of about 360 in 1989 to a planned retention of 187 bombers through the early part of the next century.

Senior DOD officials have said that DOD cannot afford all of the services' stated requirements and difficult decisions must be made on which investment programs to cancel so that DOD can develop and implement a long-term, sustainable recapitalization plan. While DOD believes it needs a level of redundancy to provide commanders in chief with a safety margin and flexibility, it may not need to upgrade its capabilities to the extent currently planned. GAO's analysis shows that DOD has not made a compelling case to retain and upgrade 187 bombers to support future war-fighting requirements. While there are a number of ways to reduce capabilities to strike ground targets, a smaller bomber force may be one option to reduce overlap that would result in an acceptable loss to DOD's overall war-fighting capabilities.

Because DOD's plans to modernize combat airpower may be prohibitively expensive, DOD is seeking ways to reduce costs. With this in mind, GAO has identified three options to reduce or restructure the bomber force that would achieve cost savings yet enable DOD to retain extensive aggregate airpower capabilities. The first two options—retiring all or a portion of the B-1B fleet—would result in a smaller bomber force than DOD currently plans. Retiring or reducing the B-1B force may result in an acceptable decrease in DOD's existing capabilities. The third option—increasing the number of B-1Bs in the Air National Guard—would not result in a smaller

force but would achieve some cost savings because reserve units are less expensive to operate than active units. Options two and three are not mutually exclusive. The three options and their projected cost savings are detailed below.

## Retire Entire B-1B Force

Retiring the entire B-1B force of 95 aircraft would reduce DOD's aggregate conventional airpower capabilities somewhat but would yield significant cost savings. Eliminating the B-1B force would decrease DOD's inventory of long-range airpower assets. However, B-2s and B-52Hs would still be available for missions requiring long-range and large payload capabilities. Retiring the B-1B force also would have no adverse effect on DOD's nuclear mission. The B-1B will no longer have a nuclear mission once B-2s enter the force.

If the Congress directed DOD to retire the B-1B force, CBO estimates it would save about \$6 billion in budget authority and about \$5.2 billion in budget outlays for fiscal years 1998-2002 as shown in the following table.

### Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	750	1,190	1,220	1,300	1,490
Outlays	430	950	1,130	1,290	1,440

Note: In estimating the cost savings of this option, CBO assumed that the B-1B force would be retired over a 1-year period beginning immediately, resulting in smaller savings for fiscal year 1998.

Source: Congressional Budget Office.

## Retire 27 B-1Bs in Reconstitution Reserve

The Air Force currently has 27 B-1B aircraft in reconstitution reserve that lack aircrews and funding for operations. In fiscal year 1997, the Air Force will begin reducing the number of unfunded reconstitution reserve aircraft, will establish two new operational B-1B squadrons using the aircraft that are currently in reconstitution reserve, and will fund additional aircrews and flying hours. The Air Force has included the cost of upgrading reconstitution reserve aircraft in the B-1B Conventional Munitions Upgrade Program estimated to cost \$2.4 billion from fiscal years 1996 through 2008.

If DOD perceives that the risks to retire the entire B-1B fleet outweigh the savings that could be realized, it could retire 27 reconstitution reserve B-1Bs and keep 68 B-1Bs in the force, 60 of which would be funded for combat operations or training. This option would not result in as much loss in capability as retiring the entire B-1B fleet. If 27 B-1Bs were retired, DOD would still have numerous other combinations of platforms and weapons to attack the types of targets that the B-1B is planned to destroy. Compared to retiring all 95 B-1Bs, this option would provide commanders in chief with more flexibility in planning air campaigns and basing aircraft in theater, since B-1Bs would be based farther away from the theater of operations and would not require refueling during a typical wartime mission, unless operating from the United States.

Retiring the 27 B-1Bs in reconstitution reserve would save about \$750 million in budget authority for fiscal years 1998-2002. Reconstitution reserve aircraft place an increased maintenance workload on the squadron and require the Air Force to authorize and fund four additional maintenance personnel per reconstitution reserve aircraft. Savings in the near-term would reflect the immediate termination of these positions. Savings would increase significantly in fiscal year 2000 because DOD would not establish two additional operation squadrons and could eliminate the personnel and flying-hour costs associated with these aircraft. Retiring 27 B-1Bs also would save procurement funds since DOD would upgrade only 68 B-1Bs for the conventional mission instead of 95 B-1Bs.<sup>8</sup> If the Congress directed DOD to retire the 27 B-1Bs in reconstitution reserve, CBO estimates the following savings could be achieved.

Five-Year Savings

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	2	4	80	270	390
Outlays	2	4	64	230	350

Source: Congressional Budget Office.

Place 24 Additional B-1Bs  
in the Air National Guard

Placing more B-1Bs in the Air National Guard is an option that could reduce the cost to operate DOD's bomber force while preserving the war-fighting capability of DOD's planned bomber force. By fiscal year 1998, the Air Force will have 18 B-1Bs assigned to the National Guard and fully

<sup>8</sup>According to CBO, savings from forgoing these upgrades would occur after fiscal year 2002.

trained in the conventional role. B-1Bs will no longer have a nuclear role in the near future, thus making the transfer of B-1Bs to the Air National Guard somewhat easier than transferring B-52s to the Air Force Reserve.

Placing 24 more B-1Bs in the Air National Guard would save about \$110 million in budget authority for fiscal years 1998 to 2002. We examined placing 24 more B-1Bs in the Air National Guard because this would achieve a 50/50 active/reserve ratio when attrition and backup aircraft are excluded and the Air Force has placed 50 percent or more of some refueling and air mobility assets in the reserve component. Transferring additional B-1Bs to the Air National Guard is not likely to degrade combat effectiveness or result in loss of war-fighting capability. Air Reserve combat units generally have readiness similar to active-duty units and are required to be ready to deploy within the same time as active units based in the continental United States. A major benefit of transferring bombers to the reserve component is that reserve units traditionally are less expensive to operate than active duty counterparts. Air National Guard B-1B squadrons will require fewer flying hours than active squadrons because Air National Guard units are able to recruit more experienced pilots who require less frequent training to maintain their proficiency. Also, in contrast to active duty units that rely primarily on active military personnel, Air National Guard units rely heavily on less costly civilians and part-time Guard personnel.

If the Congress directed DOD to place an additional 24 B-1Bs in the Air National Guard, CBO estimates cost savings of about \$110 million in budget authority for fiscal years 1998 through 2002 could be achieved as shown in the table below.

**Five-Year Savings**

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	0	0	10	40	60
Outlays	0	0	9	37	59

Note: One additional Guard unit would be started in fiscal year 2000 and two additional units would be started in fiscal year 2001.

Source: Congressional Budget Office.

---

**Related GAO Products**

Air Force Bombers: Options to Retire or Restructure the Force Would Reduce Planned Spending (GAO/NSIAD-96-192, September 30, 1996).

Embedded Computers: B-1B Computers Must Be Upgraded to Support Conventional Requirements (GAO/AIMD-96-28, February 27, 1996).

B-1B Conventional Upgrades (GAO/NSIAD-96-52BR, December 4, 1995).

B-1B Bomber: Evaluation of Air Force Report on B-1B Operational Readiness Assessment (GAO/NSIAD-95-151, July 18, 1995).

Air Force: Assessment of DOD's Report on Plan and Capabilities for Evaluating Heavy Bombers (GAO/NSIAD-94-99, January 10, 1994).

Strategic Bombers: Issues Relating to the B-1B's Availability and Ability to Perform Conventional Missions (GAO/NSIAD-94-81, January 10, 1994).

Strategic Bombers: Adding Conventional Capabilities Will Be Complex, Time-Consuming, and Costly (GAO/NSIAD-93-45, February 5, 1993).

Strategic Bombers: Need to Redefine Requirements for B-1B Defensive Avionics System (GAO/NSIAD-92-272, July 17, 1992).

Strategic Bombers: Updated Status of the B-1B Recovery Program (GAO/NSIAD-91-189, May 9, 1991).

Strategic Bombers: Issues Related to the B-1B Aircraft Program (GAO/T-NSIAD-91-11, March 6, 1991).

---

**GAO Contact**

Richard Davis, (202) 512-3504

## Option: Air Force Fighter Squadrons

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	Operation and Maintenance, Air Force (57-3400)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

The Air Force accounts for its fighter force structure in wing equivalents that represent 72 aircraft. At the end of the Air Force's planned drawdown, the Air Force's active component F-15 and F-16 communities will make up about 10 fighter wing equivalents. The Air Force plans to organize these aircraft in 37 squadrons at 17 bases in the United States and overseas. Until recently, Air Force fighter wings were predominantly organized in 3 squadrons of 24 aircraft. However, the Air Force has decided to reduce its squadron size to 18, which consequently reduced its wing size to 54. This change in unit size increased the number of wings and squadrons to more than would have been needed had the squadron size stayed at 24.

The Air Force has not demonstrated that it needs additional squadrons. Air Force officials believe that more squadrons are needed to provide the Air Force with additional flexibility to respond to numerous potential conflicts across the globe. Although the Air Force considers smaller fighter squadrons beneficial, it had not performed any analysis to justify its decision. Further, according to Air Force officials, Commanders in Chief, who are responsible for conducting these operations, developed plans based on the number of aircraft that are needed to execute missions—regardless of squadron size.

Keeping more squadrons than are needed increases operating costs and may result in more base infrastructure than the Air Force needs. GAO developed several notional basing plans that the Air Force could use in considering how to consolidate its fighter force into fewer squadrons. Implementing these plans could eliminate not only between two and seven squadrons, but also a wing and/or fighter base. CBO identified operating and support cost savings ranging between \$38 million and \$149 million

---

**Appendix III**  
**Options for Deficit Reduction**

---

annually (in 1997 dollars).<sup>9</sup> Recurring savings resulting from a base closure are estimated at an additional \$40 million annually (in 1997 dollars). However, these savings would not begin to accrue until 3 to 4 years after the base closure decision. If the Congress chose to consolidate the Air Force's fighter force into fewer squadrons by eliminating seven of them, the following operating savings could be achieved.

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	75	153	157	161	165
Outlays	71	149	156	160	165

Note: Savings estimates do not include funds associated with the base closure. The savings could be significant depending on the base selected for closure.

Source: Congressional Budget Office.

---

**Related GAO Product**

**Air Force Aircraft: Consolidating Fighter Squadrons Could Reduce Costs**  
(GAO/NSIAD-96-82, May 6, 1996).

---

**GAO Contact**

Richard Davis, (202) 512-3504

---

<sup>9</sup>The CBO savings estimate is based on GAO's personnel reduction estimates. Based on these reductions, GAO's work shows that operating costs savings could range between \$25 million and \$115 million annually. Differences between CBO and GAO estimates are attributable to the larger infrastructure cost savings estimated by CBO and not included in GAO's estimates.

## Option: C-17 Strategic Airlift

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	Aircraft Procurement, Air Force (57-3010)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Reassess objectives

The C-17 jet transport is being manufactured for the Air Force by McDonnell Douglas Corporation. The Air Force originally planned to acquire 210 C-17s; however, as a result of the Major Aircraft Review, that number was reduced to 120. In 1993, because of ongoing problems with the C-17 program, the Department of Defense (DOD) explored the possibility of acquiring a mixed fleet of C-17s and nondevelopmental commercial transport aircraft, such as Boeing 747-400s. In November 1995, as a result of an Air Force study which considered a number of possible mixes of C-17s and non-developmental airlift aircraft and a Defense Acquisition Board decision, DOD decided that the advantages of a transport fleet with only C-17s outweighed the cost savings of acquiring a mixed fleet. Thus, DOD is planning to acquire 120 C-17s to replace the C-141s that are being retired.

An option not considered by the Defense Acquisition Board, which may also satisfy airlift requirements, would be to acquire 100 C-17s and no nondevelopmental airlift aircraft. This option could save over \$7 billion in life cycle costs. Airlift needs could be met with this reduced number of C-17s if DOD implemented other individual measures, such as increasing, by a small amount, prepositioning; using training aircraft that were assumed to be unavailable in the analyses presented to the Defense Acquisition Board; increasing the use of the Civil Reserve Air Fleet aircraft, extending slightly the time frame for delivery, or a combination of these measures.

Because of the potential for cost savings, the Congress may wish to consider funding only 100 C-17s rather than the 120 that are currently planned for acquisition. If the Congress chose to fund only 100 C-17s, CBO estimates that the following budget savings could be achieved.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>
Savings from the 1997 Defense Plan					
Budget authority	0	0	0	240	2,974
Outlays	0	0	0	15	242

Source: Congressional Budget Office.

---

**Related GAO Product**

**Military Airlift: DOD Could Meet Mobility Needs With Fewer C-17s and Save Billions** (GAO/NSIAD-97-38, December 30, 1996).

---

**GAO Contact**

Louis J. Rodrigues, (202) 512-4841

## Option: Nuclear Submarine Force Reductions

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	Shipbuilding and Conversion, Navy (17-1611)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Reassess objectives

Nuclear-powered attack submarines (SSN) are the Navy's prime antisubmarine warfare asset. Today, faced with a changed world threat and a new defense posture, the Navy is reducing the size of its SSN fleet. The Department of Defense's (DOD's) Bottom-Up Review (BUR) determined that the Navy needed to maintain a force of 45 to 55 SSNs after fiscal year 1999 to meet the requirements of the defense strategy, including both regional conflicts and peacetime presence operations. There are less costly alternatives than the approach the Navy has chosen to maintain the required SSN force structure. As we have reported, these alternative approaches would save billions of dollars and meet the Navy's force structure and threat requirements.

In October 1994, we reported that there were less costly alternatives than the Navy shipbuilding plan for maintaining DOD's approved attack submarine force structure of 45 to 55 submarines. Under two of the three alternatives, the Navy could maintain a sustained low-rate production, and under the third, the Navy could defer SSN construction until early in the next century. The Navy and the Congress subsequently decided not to defer SSN construction.

This alternative, would build only 25 SSNs through 2014, 6 fewer than the Navy currently plans. This alternative allows a force structure of close to 55 submarines through 2014, before declining to 45 SSNs in 2020. The alternative would buy one submarine in each year from 1998 through 2002 and, eventually buy 3 submarines every other year until 25 submarines are purchased. If the Navy accepted this alternative and bought 6 fewer submarines than currently planned, the following savings would be achieved through 2002.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>
Savings from the 1997 Defense Plan					
Budget authority	0	160	240	170	1,730
Outlays	0	10	50	110	220

Note: Estimate includes savings from not buying a new submarine in fiscal year 2002.

Source: Congressional Budget Office.

---

**Related GAO Product**

Attack Submarines: Alternatives for a More Affordable SSN Force Structure  
(GAO/NSIAD-95-16, October 13, 1994).

---

**GAO Contact**

Richard Davis, (202) 512-3504

## Option: Major Weapon System Warranty Law

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	Aircraft Procurement, Air Force (57-3010)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

During the 1970s and the 1980s, the Congress was faced with an acquisition process that delivered weapon systems that often failed to meet their military missions, were operationally unreliable, and had defective and poor workmanship and material. As a result, in 1984 the Congress passed legislation requiring the Department of Defense (DOD) to obtain warranties on major weapon systems. The warranties were expected to improve weapon system reliability by providing a mechanism to hold contractors liable for poor performance. Prior to the warranty law, DOD was permitted but not required to obtain a warranty.

GAO estimated that the military services spend approximately \$271 million annually obtaining weapon system warranties. GAO found that none of the warranties reviewed, where claim and price data were available, were cost-effective. For example, for the warranties reviewed, the government only collected \$5 million after paying \$94 million for these weapon system warranties.

Despite DOD's efforts to address administrative weaknesses, such as failing to file all warranty claims or making use of adequate cost-benefit analyses, DOD continues to have fundamental problems managing the warranty program. The administrative problems appear to be unintended consequences of the warranty law. Attempts to administratively correct the warranty law have not been successful. Because of the potential for cost savings, the Congress should repeal the warranty law (10 U.S.C. 2403). Savings under this option would depend on the extent the military departments still obtain warranties for some programs after the law is repealed, therefore, CBO is unable to provide a savings estimate at this time.

---

**Appendix III**  
**Options for Deficit Reduction**

---

<b>Related GAO Product</b>	<u>Weapons Acquisition: Warranty Law Should Be Repealed</u> (GAO/NSIAD-96-88, June 28, 1996).
<b>GAO Contact</b>	Louis J. Rodrigues, (202) 512-4841

---

## Option: Base Alignment and Closure Accounts

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Military Construction (Senate) Military Construction (House)
Primary agency	Department of Defense
Account	Base Realignment and Closure (97-0103)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

Changing national security needs and the Department of Defense's (DOD) recognition that its base structure was larger than required led to a decision to close numerous bases around the country. Consequently, the Congress enacted legislation that instituted closures of facilities identified by the Base Realignment and Closure (BRAC) Commission as part of the base closure process.

The Congress appropriates BRAC funds on a no year and lump sum basis. Funds can be used for a variety of purposes including construction, family housing, and environmental restoration costs associated with base closures and realignment. Therefore, DOD is provided a tremendous amount of flexibility to finance BRAC expenditures from the BRAC account. While DOD budget guidance directs services to request only funds needed in the appropriation year, large unobligated balances indicate the services have been requesting more than necessary. Because requirements lack the specificity of regular DOD requirements, large unobligated balances represent funds the Congress may wish to rescind. The following savings represent a rescission of the \$148 million.

### Five-Year Savings

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	148	0	0	0	0
Outlays	46	53	28	15	2

Source: Congressional Budget Office.

---

Appendix III  
Options for Deficit Reduction

---

Related GAO Products

Military Bases: Potential Reductions to the Fiscal Year 1997 Base Closure Budget (GAO/NSIAD-96-158, July 15, 1996).

Military Bases: Update on the Status of Bases Closed in 1988, 1991, and 1993 (GAO/NSIAD-96-149, August 6, 1996).

---

GAO Contact

David R. Warren, (202) 512-8412

## Option: Defense Inventories Reform

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

Over 100 GAO reports have pointed out Department of Defense (DOD) inventory management problems and have shown that DOD has accumulated inventory that greatly exceeds its operational and war reserve needs. Systemic problems in determining requirements and inadequate financial accountability and control have contributed to poor inventory management practices. Traditionally, DOD's culture has emphasized overbuying and placed little value on economy and efficiency, causing unneeded items to pile up in warehouses.

DOD could be more aggressive in implementing private sector practices that could reduce inventory costs. DOD has implemented, in a limited manner, certain commercial practices such as direct vendor delivery for medical and food items. However, these initiatives represent only about 3 percent of the items for which this concept could be used.

Systemic reforms—such as improving the way inventory requirements are determined, using commercial inventory management practices, and changing financial management policies and practices—continue to be needed to achieve further reductions in DOD's budget requirements. GAO estimates that, as of September 1995, only about half of DOD's \$69.6 billion in inventory had to be on hand to support current operations and war reserves. GAO's work has shown that several private business have been able to reduce their on hand inventories by more than 50 percent by implementing best practices.

Unless DOD takes more aggressive actions, its inventory management problems will continue into the next century. We have identified four specific inventory related options the Congress may wish to consider for DOD budget reduction purposes.

---

### Use Prime Vendors to Supply High-Volume Clothing and Textile Items

DOD spends over a billion dollars for clothing and textile items sold to military service customers, primarily the services' 14 recruit induction centers and over 300 military exchange stores. GAO has reported that while private sector companies are cutting costs by minimizing inventories, DOD continues to store redundant levels of clothing and textile inventories throughout its wholesale and retail system. Much of this inventory is aged; for about 26 percent of the items, DOD had 10 years of supply on hand. To maintain these stocks, DOD employs a large operations infrastructure and thus incurs unnecessary inventory storage and handling costs.

Many private sector firms and some federal agencies with uniformed employees are relying on prime vendors to manage their clothing inventories. Prime vendors provide timely and direct delivery between customers and suppliers, and order additional stock from manufacturers on short notice, with quick turnaround, to minimize inventory holding costs and improve customer service. GAO believes that substantial opportunities exist to reduce DOD annual expenditures on clothing and textile items by adopting best commercial practices on a wide-scale basis. For example, the Congress may wish to direct DOD to adopt a primary vendor program for supplying clothing and textile items to its 14 recruit induction centers. Although CBO believes that initiating such actions would save money, it was unable to calculate a savings estimate at this time.

---

### Use Innovative Commercial Practices to Supply Electronics Items to Maintenance and Repair Facilities

The Defense Logistics Agency (DLA) manages over 1 million electronics items such as resistors, fuses, and switches. It stores this inventory, valued at over \$2 billion, at 28 distribution depots and other storage locations. This large level of inventory reflects DLA's practice of buying and storing electronics supplies to ensure they are available to customers—sometimes several years in advance of when the supplies are actually needed. The turnover of DLA's electronics inventory is slow. In fiscal year 1993, the wholesale inventory of such items would turn over once every 4 years. In comparison, private sector suppliers often turn their stock over four times a year.

Many private sector companies have adopted modern inventory management practices, including long-term relationships with suppliers, direct delivery programs, and direct communication channels between suppliers and end users. With these practices, companies do not store supplies at intermediate handling and storage locations, as DOD does. Instead, they arrange for suppliers to deliver inventory items directly to the end user's facility at about the time when the items are needed. The

result is a reduction in inventories and related holding costs as well as improved customer service.

DLA has initiated several programs to adopt commercial practices for electronics items, but overall progress is slow and projected results are limited. Substantial opportunities exist and significant savings would result if electronics items were managed by adopting best commercial practices on a wide-scale basis. The Congress may wish to direct DLA to adopt modern inventory management practices that would result in a similar 50 percent decrease in electronics items inventory. Although CBO believes that initiating such actions would save money, it was unable to calculate a savings estimate at this time.

---

## DOD Spare and Repair Parts Storage Locations

The Army, Navy, and Air Force store the majority of their general issue spare and repair parts inventories at a few locations with the remaining inventory being stored at hundreds of other locations. To illustrate, over 95 percent of the Army's general issue inventory is stored at 7 major locations and the remaining 5 percent is stored at 110 other locations. The Navy stores 81 percent of its inventory at 6 locations and the other 19 percent at 52 locations. The Air Force's storage pattern is similar to that of the Army and Navy. It stores 96 percent of its inventory at 6 major locations and the other 4 percent at 105 locations.

Most of the items stored at other than major locations had small quantities of onhand inventory. In fact, over 53 percent of the items had onhand quantities of three or less, while only 25 percent of the items had quantities of 11 or more. Our analysis also showed that many of the Army items<sup>10</sup> had infrequent issues over the 2-year period ending August, 1996. Over 53 percent of the inventory items at other than major storage locations had no issues and, an additional 33 percent of the items had less than five issues during the same 2-year period. The need for many of the items stored at other than major locations is questionable.

Maintaining inventory that is not needed is expensive and does not contribute to an effective, efficient, and responsive supply system. Our analysis showed that \$2.7 billion of the inventory was not needed to meet the services' current operating and war reserve requirements. CBO agrees that DOD could save millions of dollars annually in inventory holding costs by eliminating at other than major locations inventory that is not needed

---

<sup>10</sup>Information was not readily available from the Air Force and Navy to determine the number of inventory issues on an item-by-item basis at each storage location.

to meet current operating and war reserve requirements. However, CBO could not provide a savings estimate at this time.

## Army Spare and Repair Parts Budget

The Army budget stratification reports which are used to determine spare and repair parts budget requests are based on inaccurate data. When an item's available inventory is not sufficient to meet the requirements, the item is considered to be in a shortage position, and the aggregate value of shortage items is the basis for determining the budget request.

Our review of 258 items with a reported shortage value of \$519 million showed that the shortage position for \$211 million of the items was incorrect. If accurate requirements and inventory data had been used, the inventory shortage for these items would have been \$23 million rather than the \$211 million reported. As a result, the fiscal year 1996 budget request included \$188 million (\$211 million minus \$23 million) for items that were not in a shortage position.

Because corrective actions were not taken in time to affect the fiscal year 1997 budget request, we believe the fiscal year 1997 request is also overstated. Therefore, the Congress may want to reduce the Army's fiscal year 1998 spare and repair parts budget request by the \$188 million it was overstated in fiscal year 1996.

## Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	188	0	0	0	0
Outlays	143	35	6	2	1

Source: Congressional Budget Office.

## Related GAO Products

Defense Inventory Management (GAO/HR-97-5, February 1997).

Defense Inventory: Spare and Repair Parts Inventory Costs Can Be Reduced (GAO/NSIAD-97-47, January 17, 1997).

1997 DOD Budget: Potential Reductions to Operation and Maintenance Program (GAO/NSIAD-96-220, September 18, 1996).

---

Navy Financial Management: Improved Management of Operating Materials and Supplies Could Yield Significant Savings (GAO/AIMD-96-94, August 16, 1996).

Inventory Management: Adopting Best Practices Could Enhance Navy Efforts to Achieve Efficiencies and Savings (GAO/NSIAD-96-156, July 12, 1996).

Defense Logistics: Requirement Determinations for Aviation Spare Parts Need to Be Improved (GAO/NSIAD-96-70, March 19, 1996).

Best Management Practices: Reengineering the Air Force's Logistics System Can Yield Substantial Savings (GAO/NSIAD-96-5, February 21, 1996).

Army Inventory: Budget Requests for Spare and Repair Parts Are Not Reliable (GAO/NSIAD-96-3, December 29, 1995).

Inventory Management: DOD Can Build on Progress in Using Best Practices to Achieve Substantial Savings (GAO/NSIAD-95-142, August 4, 1995).

Best Practices Methodology: A New Approach for Improving Government Operations (GAO/NSIAD-95-154, May 25, 1995).

Commercial Practices: DOD Could Reduce Electronics Inventories by Using Private Sector Techniques (GAO/NSIAD-94-110, June 29, 1994).

Commercial Practices: Leading-Edge Practices Can Help DOD Better Manage Clothing and Textile Stocks (GAO/NSIAD-94-64, April 13, 1994).

---

GAO Contacts

David R. Warren, (202) 512-8412

Mark E. Gebicke, (202) 512-5140

## Option: Defense Transportation Restructuring

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

In 1993 and again in 1996, we reported that the Department of Defense's (DOD) current transportation processes are fragmented, inefficient, and costly. Beginning in 1949, various studies, commissions, and task forces have recommended changes in the defense transportation system organizational structure. In 1987, after the Goldwater-Nichols Act of 1986 urged that actions be taken to unify transportation management, the Secretary of Defense established the U.S. Transportation Command (USTRANSCOM). USTRANSCOM's own study shows that little has changed since it was created and charged with responsibility for unifying DOD's transportation infrastructure.

Our work shows that opportunities exist to reduce defense transportation infrastructure and improve efficiency of cargo traffic management operations. For example, combining common-user traffic management functions and positions under the direct command and control of a single manager, USTRANSCOM, would reduce overhead and eliminate duplicative functions. Moreover, nearly all defense surface cargo moves by commercial carriers during peacetime and noncontingency operations. More outsourcing of the traffic management functions related to shipments by commercial carriers is possible and would further reduce transportation costs.

Overall, fixing the organizational structure is a mandatory first step to substantially reduce transportation costs. One logical way, though not the only one, as related to surface traffic management functions, would be to (1) place the Defense Business Operations Fund-Transportation staff of the Navy's Military Sealift Command staff worldwide together with the staff of the Army's Military Traffic Management Command (MTMC), thereby eliminating duplicative staff and overlapping layers of management, (2) consolidate or eliminate the resulting continental United States area

command offices thereby eliminating duplicate staff functions,  
(3) consolidate or eliminate the resulting overseas area offices, and  
(4) consolidate or eliminate the resulting port command and area offices.

Although MTMC, because of the recommendations of the 1995 Defense Base Closure and Realignment Commission to close the Military Ocean Terminal at Bayonne, New Jersey, and California's Oakland Army Base, has announced plans to consolidate the continental United States area command staff in a new location, opportunities still exist to reduce infrastructure and improve efficiency of traffic management operations. If the Congress chose to restructure the organization as noted, the following civilian personnel savings could be achieved.

Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	16	33	51	70	73
Outlays	16	32	50	69	73

Source: Congressional Budget Office.

Related GAO Products

Defense Transportation: Reengineering the DOD Personal Property Program (GAO/NSIAD-97-49, November 27, 1996).

Defense Infrastructure: Budget Estimates for 1996-2001 Offer Little Savings for Modernization (GAO/NSIAD-96-131, April 4, 1996).

Defense Transportation: Streamlining of the U.S. Transportation Command Organization Is Needed (GAO/NSIAD-96-60, February 22, 1996).

Defense Transportation: Commercial Practices Offer Improvement Opportunities (GAO/NSIAD-94-26, November 26, 1993).

GAO Contact

David R. Warren, (202) 512-8412

## Option: Depot Maintenance Program Excess Capacity

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

The Department of Defense's (DOD) annual \$15 billion depot maintenance program provides for the repair and overhaul of military parts, weapon systems, and equipment. This work is accomplished by commercial contractors as well as by DOD employees in large industrial depots maintained by the military departments.

Factors such as threat changes, new war-fighting plans, force structure reductions, and increased reliability and maintainability of many military systems have significantly reduced depot maintenance requirements over the past few years. Faced with substantial excess depot capacity and high infrastructure costs, DOD has been struggling to implement initiatives to more cost effectively (1) utilize existing maintenance resources at depots and operational units, (2) reduce excess depot maintenance infrastructure, largely by closing depots as a part of the base closure and realignment process, and (3) reallocate workload from closing depots. At the same time, DOD has embarked on the implementation of a depot maintenance strategy that will privatize much of the depot maintenance workload without determining whether privatizing specific depot workloads will result in savings.

In previous reports and as a part of our ongoing review of DOD depot maintenance operations and management, GAO has identified the following shortcomings in these initiatives and has highlighted other actions that could be taken to improve the cost-effectiveness of the DOD depot maintenance program.

First, DOD has not been successful in achieving an optimal balance between maintenance work performed at operational units and at depots. Cost-benefit evaluations of competing alternatives that consider

infrastructure, personnel, material, transportation, and equipment tradeoffs could result in significant savings.

Second, the services continue to rely largely on their own service depots rather than maximizing interservicing opportunities by consolidating similar maintenance operations at a single location. On many occasions, we have pointed out that this approach leads to unnecessary duplication of resources. A greater use of cross-servicing could eliminate costly redundancies and excess capacity.

Third, DOD plans to privatize-in-place depot maintenance activities without evaluating other alternatives such as public-private competitions or interservicing. Such privatization-in-place initiatives will do little to resolve the extensive excess capacity problem that currently exists in both public and private sector industrial facilities and may not be the most cost-effective solution. An option that could result in substantial savings would be to reallocate core workload to remaining military depots when determined to be more cost-effective and use competitive procedures to include public and private entities to determine the source-of-repair for noncore workload.

Fourth, DOD is reluctant to use competitions between the public and private sector to ensure that the privatization of maintenance workloads will result in savings. While there are opportunities to achieve cost savings by privatizing depot maintenance workloads which have commercial counterparts and where there is a substantial private sector competitive market, it is less likely the private sector will be more cost-effective in an uncompetitive environment. A greater reliance on public-private competitions as a means of depot maintenance workload reallocations could produce significant savings.

Fifth, while the four previous base realignment and closure (BRAC) rounds have resulted in the identification of four naval shipyards, three naval aviation depots and two warfare centers, three Air Force depots, and five Army depots for closure or realignment, significant excess capacity will remain in the public depot system, particularly if DOD proceeds with its privatization-in-place plans. Additional closures and/or realignments could reduce costly excess capacity and produce significant savings.

Sixth, we have reported that reengineering the processes and procedures for organic workloads that have been subjected to competition resulted in significant efficiency gains and productivity improvements. Similar

---

reengineering initiatives for other organic workloads should also result in significant savings.

One option the Congress may wish to consider is to direct DOD, prior to privatizing any depot workloads at depots identified by the BRAC for closure or realignment, to complete cost analyses that consider the savings potential of consolidating those BRAC-identified depot maintenance workloads at other DOD depots. Such analyses should include determining savings that can be achieved for existing workloads by reducing overhead rates through more efficient capacity utilization of fixed overhead at underused military depots. The magnitude of savings would depend on the resulting structure and size of the depot maintenance system and workload split between the private and public sectors. CBO agrees that savings would occur but were unable to provide a savings estimate at this time.

---

## Related GAO Products

Defense Infrastructure (GAO/HR-97-7, February 1997).

Air Force Depot Maintenance: Privatization-in-Place Plans Are Costly While Excess Capacity Exists (GAO/NSIAD-97-13, December 31, 1996).

Depot Maintenance: Opportunities to Privatize Repair of Military Engines (GAO/NSIAD-96-33, March 5, 1996).

Closing Maintenance Depots: Savings, Workload and Redistribution Issues (GAO/NSIAD-96-29, March 4, 1996).

Navy Maintenance: Assessment of the Public-Private Competition Program for Aviation Maintenance (GAO/NSIAD-96-30, January 22, 1996).

Depot Maintenance: The Navy's Decision To Stop F/A-18 Repairs at Ogden Air Logistics Center (GAO/NSIAD-96-31, December 15, 1995).

Military Bases: Analysis of DOD's 1995 Process and Recommendations for Closure and Realignment (GAO/NSIAD-95-133, April 14, 1995).

Aerospace Guidance and Metrology Center: Cost Growth and Other Factors Affect Closure and Privatization (GAO/NSIAD-95-60, December 9, 1994).

---

**Appendix III**  
**Options for Deficit Reduction**

---

Correspondence to the Chairman, Subcommittee on Readiness, Senate Committee on Armed Services, follow-up to April 12, 1994, Depot Maintenance Testimony (GAO/NSIAD-94-242R, July 28, 1994).

Navy Maintenance: Assessment of the Public and Private Shipyard Competition Program (GAO/NSIAD-94-184, May 25, 1994).

Depot Maintenance: Issues in Allocating Workload Between the Public and Private Sectors (GAO/T-NSIAD-94-161, April 12, 1994).

Depot Maintenance: Issues in Management and Restructuring To Support a Downsized Military (GAO/T-NSIAD-93-13, May 6, 1993).

---

GAO Contact

David R. Warren, (202) 512-8412

## Option: Military Exchange Stores Consolidation

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

GAO reviewed the morale, welfare, and recreation (MWR) program—a \$12 billion dollar enterprise that provides service members, their dependents, and eligible civilians with an affordable source of goods and services like those available to civilians—and found that revenue generated by the MWR activities is likely to decrease in the 1990's because of the downsizing of forces and increasing private sector competition. Appropriated funds—which now constitute 10 percent of MWR funding—are also expected to decline as overall budgets decline.

Exchange stores are the largest producer of MWR revenue. The Department of Defense's (DOD) decentralized approach to managing the MWR program will not work well in this environment. Since 1968, studies by GAO, DOD, and others have recommended the consolidation of exchanges into a single entity. Each study predicted financial benefits could be achieved through consolidation. While the Army and Air Force exchanges have been consolidated, the Navy and Marine Corps retain independent exchanges. Further consolidations could achieve additional savings. For example, consolidating the Navy and Marine Corps exchange systems with the Air Force/Army exchange system would eliminate entire headquarters operations and the corresponding overhead costs. The Congress may wish to direct DOD to consolidate the Navy and Marine Corps exchange systems with the existing Air Force/Army exchange system. CBO estimated that the following 5-year savings might be achieved.

### Five-Year Savings

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	40	60	60	60	60
Outlays	30	50	60	60	60

Source: Congressional Budget Office.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Related GAO Product**

Morale, Welfare, and Recreation: Declining Funds Require DOD to Take Action (GAO/NSIAD-94-120, February 28, 1994).

---

**GAO Contact**

David R. Warren, (202) 512-8412

## Option: Budgeted Civilian Personnel Requirements

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

The services determined their civilian personnel requirements for fiscal year 1997 based on the estimated end-strength for fiscal year 1996 adjusted for program changes that are expected to occur during fiscal year 1997. Once the beginning and ending strength for the budget year are determined, the services compute the estimated work years and multiply the result by the average civilian personnel salary cost.<sup>11</sup> If fiscal year 1996 actual end strength was less than budgeted, the beginning point for determining the fiscal year 1997 requirement was overstated.

Based on the actual number of civilian personnel on board as of April 1996 for the Navy and other DOD agencies and as of May 1996 for the Army and Air Force, we estimated that the actual end strength at the end of fiscal year 1996—the beginning figure for fiscal year 1997—would be 7,331<sup>12</sup> less than the figure used by the services for determining their fiscal year 1997 budget request. Because the services used a larger beginning figure, the number of work years used in the budget request is also overstated by 3,665 work years (\$185.5 million). In addition, our comparison of the civilian personnel requirements shown in the President's Budget to the justification documents prepared in support of the budget request showed that the budget request was overstated \$60 million. Thus, the total overstated personnel requirements equate to about \$245.5 million.

In view of the overstated personnel requirements, the Congress may want to reduce the services' fiscal year 1998 budget requests for civilian personnel by the amounts of the overstatements; the Army's by \$33.3 million, the Navy's by \$108.3 million, the Air Force's by \$70 million, and other DOD agencies by \$33.9 million.

<sup>11</sup>The average salary cost includes an estimate of funds needed for severance pay and separation incentives purposes as well as for compensation.

<sup>12</sup>This equates to 3,665 work years.

---

**Appendix III**  
**Options for Deficit Reduction**

---

CBO agrees that the differences in proposed versus actual reductions in personnel creates windfall surpluses in personnel accounts during a single budget year. More accurate reporting and subsequent tightening of the O&M budget may produce savings; however, CBO is unable to estimate a five-year cost savings for this option.

---

**Related GAO Product**

1997 DOD Budget: Potential Reductions to Operation and Maintenance Program (GAO/NSIAD-96-220, September 18, 1996).

---

**GAO Contact**

Mark E. Gebicke, (202) 512-5140

**Option:  
Convert Some  
Support Officer  
Positions to Civilian  
Status**

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

Commissioned military officers are required to provide leadership and command military organizations. The services use officers in such warfighting positions as infantry commander and fighter pilot and such support positions as civil engineer, personnel officer, and veterinarian.

Thousands of officers are staffing positions that could be converted to civilian status without reducing operational forces. GAO evaluated about 32,000 officer positions in the Army, Air Force, and Navy (about 30 percent of all officers in support positions), and found that about 9,500 are performing work that could be performed by civilians at lower cost. Independently, the Army identified about 6,100 officer and enlisted positions that it believes could be converted to civilian status and the Air Force found between about 15,200 and about 25,400 officer positions that it believes could be converted.

Savings can only be obtained if the military position is deleted from end strength. Also, the savings are partially offset by the need to staff converted positions with civilian personnel, but GAO found that civilians of roughly equal grade are less expensive than corresponding military personnel. GAO did not evaluate the potential to use contractors rather than federal civilians in converted positions although using contractors might produce greater savings.

DOD is in the midst of an extensive drawdown of civilian personnel. Military to civilian conversions, however, do not necessarily conflict with plans to reduce the size of government. For example, DOD currently plans to reduce civilian endstrength by 26 percent between fiscal year 1993 and 2001. If DOD reduced civilian endstrength by about 25 percent (rather than 26 percent), it would have enough civilian authorizations to replace the 9,500 officer positions.

If the Congress directed the Department of Defense to civilianize, at a minimum, the 9,500 officer support positions identified by GAO and then maintain the grade structure that existed prior to conversion, the following budget savings could be achieved. These savings assume that the commissioned military officer positions are deleted from DOD's force.

Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	97	100	103	106	110
Outlays	95	100	103	106	110

Source: Congressional Budget Office.

Related GAO Product

DOD Force Mix Issues: Converting Some Support Officer Positions to Civilian Status Could Save Money (GAO/NSIAD-97-15, October 23, 1996).

GAO Contact

Mark E. Gebicke, (202) 512-5140

Option:  
Attrition of Enlisted  
Personnel From the  
Military Services

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

For at least the last decade, about one-third of enlistees in the military services have failed to complete their first tours of duty. A large percentage of this attrition occurs in the first 6 months of enlistees' first terms, before they have reported to their first duty stations. For example, more than 25,000 of the 176,000 recruits who were enlisted in fiscal year 1994 were separated before they had completed 6 months of service. In fiscal year 1994, the services' enlisted attrition rates at the 6-month point were as follows: 15.7 percent for the Army, 15.7 for the Navy, 12.5 for the Marine Corps, and 11.6 for the Air Force.

Thousands of recruits are separated in their first 6 months of service because the services do not adequately screen applicants for disqualifying medical conditions or for preservice drug use. One reason that this screening is inadequate is that recruiters do not have sufficient incentives to ensure that their recruits are qualified. Thousands of recruits also are separated who fail to meet minimum performance criteria. Recruits have problems meeting performance standards because they are not physically prepared for basic training and because they lack motivation. At present, DOD lacks consistent and complete information on the percentage of attrition that is unnecessary. DOD's primary database for managing attrition does not allow it to adequately determine the reasons that enlisted recruits separate and set appropriate targets for reducing attrition.

In our recently issued report, to reduce the attrition of enlisted personnel during the first 6 months of their terms of enlistment and ensure that only qualified personnel are enlisted, we recommended that the Secretary of Defense direct the services to

- strengthen their recruiter incentive programs to encourage recruiters to thoroughly prescreen potential recruits with medical histories;

- link recruiting quotas to recruits' successful completion of basic training;
- require potential recruits to provide the names of their medical insurers and providers and allow the services access to past medical information;
- revise their forms for collecting information from recruits; and
- use a newly proposed DOD database of medical diagnostic codes to determine whether medical screening tests should be added to preenlistment examinations.

The recommendations, if implemented would help the services meet their goals to reduce attrition in the first 6 months.

All the services agree that reducing early attrition is desirable. To this end, three services have attrition-reducing targets ranging from 4 to 10 percent. If the services reach their goals, they would realize immediate short-term annual savings because they would be transporting, feeding, clothing, and paying fewer recruits. We estimated short-term annual savings would range from around \$5 million to \$12 million. Even greater dollar savings could be realized over time as the services began to reduce the infrastructure associated with recruiting and training enlistees. We estimated the services possible long-term infrastructure savings could range from \$15 million to \$39 million. However, these long-term savings probably would not be proportional to the decrease in attrition.<sup>13</sup>

CBO could not provide a 5-year cost savings that might occur if DOD reduced enlisted attrition by at least 4 percent because of limitations with DOD's and the services' attrition data. However, CBO was able to calculate an estimated cost savings that might result if DOD and the services reduced those attritions that result from inadequate medical screenings designed to identify pre-existing conditions. Those estimated cost savings are shown in the table below.

---

<sup>13</sup>GAO's short-term cost savings are based on cost data provided by the Navy and includes the cost to transport a recruit to basic training; pay, feed, and house the recruit while at basic training; provide the recruit's medical examination while at basic training; and transport the recruit home after separation. Long-term cost savings are based on cost data provided by the Office of the Secretary of Defense and includes the cost of recruiting and training each new recruit up to the 6-month point in their first terms.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	5	5	5	6	6
Outlays	5	5	5	6	6

Source: Congressional Budget Office.

---

**Related GAO Product**

Military Attrition: DOD Could Save Millions by Better Screening Enlisted Personnel (GAO/NSIAD-97-39, January 6, 1997).

---

**GAO Contact**

Mark E. Gebicke, (202) 512-5140

Option:  
Army National Guard  
Divisions

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

In March 1996, we reported that the Army National Guard's combat structure, with 42 combat brigades, exceeds projected requirements for two major regional conflicts, according to war planners and Department of Defense (DOD) and Army studies. Although the National Guard has state missions in addition to its federal role, RAND studied the use of Guard forces for state missions and concluded that even in a peak year, such missions would not require a large portion of the Guard and therefore should not be used as a basis for sizing the Guard's force.

In our report, we noted that the Army has a shortage of support troops for a two regional conflict strategy and was studying alternatives to redesign the Guard's combat structure to meet critical shortages that the Army identified in its support capabilities. We recommended that the Secretary of Defense validate the size and structure of all the Guard's combat forces and that the Secretary of the Army prepare and execute a plan to bring the size and structure in line with validated requirements. We further recommended that the Secretary of Defense consider eliminating Guard forces that exceed validated requirements. DOD's Commission on Roles and Missions had similar recommendations in their report.

In January 1997, we reported on the study to redesign the Guard's combat structure. We stated that the study developed an option that provides for the conversion of some Guard combat and supporting forces to fill needed, but unresourced, support requirements. However, neither this study nor other studies deal with the critical issues of validating the need for the remaining Guard combat structure or eliminating any excess forces. As a result, substantial Guard combat structure is left in place that has no valid war fighting missions. We recommended that the Secretary of Defense, as he guides the Quadrennial Defense Review, direct that the Review process validate any requirement for Guard combat structure. We

---

**Appendix III**  
**Options for Deficit Reduction**

---

further recommended that once this validation is complete, the Secretary of Defense, in concert with the Secretary of the Army, eliminate any structure beyond validated requirements.

If the validation process determines that there is structure beyond validated needs, savings could be achieved by eliminating those excess forces. For example, the following savings could be achieved, if the equivalent of one division were eliminated from the force structure.

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	117	240	245	252	259
Outlays	105	225	242	248	255

Note: For estimating purposes, CBO used the cost of an armored division. Since the Army has identified a shortage in its support forces, this option would retain all support personnel indirectly associated with the eliminated division. The elimination of each additional division would yield more or less savings, depending on the type of division eliminated.

Source: Congressional Budget Office.

---

**Related GAO Products**

Army National Guard: Planned Conversions Are A Positive Step, but Unvalidated Combat Forces Remain (GAO/NSIAD-97-55BR, January 29, 1997).

Army National Guard: Validate Requirements for Combat Forces and Size Those Forces Accordingly (GAO/NSIAD-96-63, March 14, 1996).

---

**GAO Contact**

Richard Davis, (202) 512-4032

## Option: Junior Reserve Officers' Training Corps

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Operation and Maintenance—Army, Navy, Marine Corps, and Air Force
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Reassess objectives

The National Defense Act of 1916 established the Junior Reserve Officers' Training Corps (JROTC) program for high schools and private secondary schools. The program's primary purpose was to disseminate military knowledge among the secondary school population of the United States. The ROTC Vitalization Act of 1964 expanded the program and required the Secretary of each military department to establish and maintain JROTC units. In the wake of the August 1992 Los Angeles riots, the President and the Chairman of the Joint Chiefs of Staff made plans to double the size of the program within 5 years.

The Army, Navy, Marine Corps, and Air Force Operation and Maintenance (O&M) budget requests for fiscal year 1997 included \$135.3 million for the JROTC program. This program was in place in over 2,300 high schools in economically disadvantaged areas, affluent areas, private schools, and Department of Defense (DOD) dependent schools at the time of our review in 1996. The program objectives are to teach military and citizenship subjects. The JROTC program is essentially a "stay in school" program. In addition, the Army runs a summer camp and O&M funds are used to help pay instructors' salaries. Service officials emphasized that JROTC is not viewed as a recruiting tool.

In our September 1995 report we stated that while the program may provide worthwhile benefits to the community and the public in general, the question is whether DOD should be involved in funding this type program or if the program should be funded by a non-DOD appropriation account. Congress may wish to discontinue or phase out the program. If the program was eliminated, the following savings could be achieved.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	170	170	180	180	190
Outlays	130	160	170	180	180

Source: Congressional Budget Office.

---

**Related GAO Product**

1996 DOD Budget: Potential Reduction to Operation and Maintenance Program (GAO/NSIAD-95-200BR, September 26, 1995).

---

**GAO Contact**

Mark E. Gebicke, (202) 512-5140

## Option: DOD's Acquisition Workforce

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

In November 1995, GAO reported that the Department of Defense (DOD) had a combined acquisition workforce of about 464,000—398,000 civilians and 66,000 military personnel in fiscal year 1994. The DOD acquisition infrastructure consumes enormous resources that could otherwise be utilized to meet modernization needs. In 1994, DOD's civilian acquisition workforce was 12 percent lower than in 1980; however, these personnel reductions have not resulted in a commensurate decline in civilian payroll costs. This is due in part to the significant decline in blue-collar workers and an increase in white-collar workers. In addition, DOD officials stated that civilian payroll costs increased because of other factors, such as the advent of locality pay and changes in grade structure.

Despite declines in both the defense procurement budget and the civilian workforce since 1990, the number of acquisition organizations remains relatively constant. Each acquisition organization maintains similar occupational fields in common areas, such as personnel, budgeting, computer specialists, and contracting, and many of the duties performed in these occupations are not unique to an acquisition organization's mission. As a result, there are significant opportunities to improve efficiencies in these areas, such as consolidating, cross-servicing, and streamlining certain functions.

The National Defense Authorization Act for Fiscal Year 1996 contains a provision (Title IX, section 906) that required DOD to provide a plan to reduce the number of personnel (both military and civilian) assigned to defense organizations by 25 percent, or 90,000 personnel over a 4-year period. The provision also required an actual reduction of 15,000 personnel during fiscal year 1996. In addition, the Defense Authorization Act for 1997 reemphasized congressional commitment to realizing significant reductions and increased efficiencies from the defense

---

**Appendix III**  
**Options for Deficit Reduction**

---

acquisition infrastructure. Although the 1997 Act requires a specific reduction of 15,000 in the number of personnel assigned to defense acquisition organizations during fiscal year 1997, it also directs DOD to assess the impact of the reductions prior to consideration of further cuts. Stopping at the 30,000 person reduction level would amount to only one-third of the total 25-percent reduction required by Title-IX, section 906.

The savings from a 90,000 person reduction in civilian personnel salaries alone are estimated in the following table.

---

**Five-Year Savings**

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	805	1,657	2,556	3,513	3,636
Outlays	781	1,631	2,529	3,485	3,633

Source: Congressional Budget Office.

---

**Related GAO Products**

Defense Acquisition Organizations: Changes in Cost and Size of Civilian Workforce (GAO/NSIAD-96-46, November 13, 1995).

Defense Infrastructure: Budget Estimates for 1996-2001 Offer Little Savings for Modernization (GAO/NSIAD-96-131, April 4, 1996).

---

**GAO Contact**

Louis J. Rodrigues, (202) 512-4841

## Option: DOD's Finance and Accounting Infrastructure

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

After several false starts, in May 1994 the Department of Defense (DOD) announced it would begin consolidating and reducing the size of its finance and accounting infrastructure during fiscal year 1995. It plans to reduce the number of sites where finance and accounting activities are conducted from over 300 to 26, which will result in a major reduction in staff years. The 26 sites are composed of 5 large existing finance centers and 21 new sites that are called operating locations. To date, 16 operating locations have been opened.

Despite these consolidation efforts, additional opportunities exist to reduce the infrastructure and improve the efficiency of finance and accounting operations. In September 1995, we reported that the process DOD used to identify the appropriate size and location of its consolidated operations was flawed. Not only would the planned infrastructure be larger than necessary, but it would also perpetuate the continued use of older, inefficient, and duplicative systems. With fewer people available to support the same operations and systems at fewer locations, the consolidation could degrade, rather than improve, customer service. Moreover, DOD's plan does not reflect leading-edge business practices and, therefore, may require additional consolidations if business process reengineering techniques are used to identify more productive business practices for DOD finance and accounting operations.

Because DOD's decision to open 21 new operating locations was not based on current or future operating requirements, customer needs, or leading-edge business practices, other consolidation alternatives could produce substantial infrastructure savings. The Defense Finance and Accounting Service (DFAS) Consolidation Task Force showed that savings could occur by retaining the 5 large centers plus 6, 10, or 15 operating locations. The Task Force concluded, however, that 6 new operating

locations was the best alternative because it would save more money and allow an optimum consolidation of finance and accounting functions. Based on this and other factors, we recommended that DOD reassess the number of operating locations needed to efficiently perform finance and accounting operations.

DOD's subsequent reassessment concluded that 16 rather than 21 operating locations are needed to support its finance and accounting operations. Because of its interpretation of congressional intent, however, DOD continues to support the opening of all 21 locations. In presenting this option, we relied on the analysis performed by the DFAS Consolidation Task Force which identified 6 as the optimum number of operating locations.

Recognizing the costs DOD has incurred to open 16 centers, reducing the number of operating locations from 16 to 6 could achieve savings in several different ways. First, a reduction in the infrastructure would require fewer support and management personnel and related items to operate the locations. Second, military construction funding for sites that would require extensive renovations would not be necessary. Third, in anticipation of the efficiencies and service improvements that would be achieved under DOD's reengineering and privatization efforts, annual funding could be reduced 10 to 15 percent. If the Congress was to direct the Secretary of Defense to reduce the existing 16 locations to 6, as recommended by the DFAS Consolidation Task Force, the following savings could be achieved in civilian personnel and military construction. This represents the optimum consolidation of locations according to the DFAS Consolidation Task Force. The savings estimate assumes that by reducing the number of sites to six, 6,500 civilian personnel positions would be eliminated. This magnitude of personnel reductions can only be attained if DOD achieves the productivity gains it expects from reengineering and privatization/outsourcing initiatives. However, the Congress and DOD will need to reach an agreement on the exact number of operating locations and reductions in personnel. Moreover, DOD may need to make investments in this area to improve its financial management systems.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>
Savings from 1997 Defense Plan					
Budget authority	174	299	369	382	395
Outlays	171	295	367	381	395

Source: Congressional Budget Office.

---

**Related GAO Product**

Defense Financial Management (GAO/HR-97-3, February 1997).

DOD Infrastructure: DOD's Planned Finance and Accounting Structure Is Not Well Justified (GAO/NSIAD-95-127, September 18, 1995).

---

**GAO Contact**

David R. Warren, (202) 512-8412

## Option: DOD's Training Infrastructure

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

Analysis of the Department of Defense's (DOD) end strengths, training workloads, and overall training budgets between fiscal years 1987 and 1995 showed that end strengths and training workloads have decreased at much greater rates than the training budget. Between fiscal years 1987 and 1995, the number of Army, Navy, Marine Corps, and Air Force active duty personnel decreased from about 2.2 million to about 1.5 million—a reduction of about 30 percent. During the same period, the training workloads for formal training and education programs decreased from about 248,000 to about 178,000—a reduction of about 28 percent. However, military personnel funding, which is used to pay military students, instructors, and training support and management personnel, decreased by only about 15 percent, and operation and maintenance (O&M) funding, which is used to pay DOD civilian and contractor instructors and to operate, maintain, and support training facilities and equipment, increased about 30 percent.

The cost of providing formal military training and education to individuals increased significantly between fiscal years 1987 and 1995. During this period, the training cost per student increased from about \$53,194 to \$72,546. (After considering the effects of inflation, the cost per student increased about \$4,200 a year.) This cost differential when multiplied by the fiscal year 1995 training workload shows that it cost about \$745 million more to train students in fiscal year 1995 than it would have taken to train the same number of students in 1987, even after accounting for inflation. Officials told us that the primary reason that training had become more expensive was the increased use of government civilian and private-sector instructors and facilities rather than military instructors.

DOD and the services have completed several actions to reduce the training infrastructure, and even more actions will be implemented over the next

several years. The actions are intended to (1) reduce the number of locations where a particular course is taught, (2) increase interservice training, and (3) increase the use of private sector instructors and facilities. Also, actions by the Base Realignment and Closure (BRAC) Commission to close and realign bases where training is conducted are also expected to reduce the training infrastructure. However, an overall plan to guide and measure the progress of reducing the training infrastructure is lacking.

The lack of a management information system with reliable cost data within the various training categories makes it difficult for DOD to evaluate the overall effectiveness of alternate methods of providing training and assess whether actions taken to reduce costs are achieving the expected results. The need for reliable data and a system for evaluating it has become even more critical because excess training infrastructure identified in the future will be difficult to eliminate in the absence of a BRAC-like process.

In view of the disparity between training workload and training costs, Congress may want to cap the funding level for O&M-related formal education and training at the fiscal year 1997 level until DOD develops a management plan to guide and measure progress in reducing the training infrastructure.

#### Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	144	300	461	635	818
Outlays	130	281	441	615	797

Note: The savings shown in the above table represent the amounts estimated for O&M-related formal education and training above the fiscal year 1997 funding level.

Source: Congressional Budget Office.

#### Related GAO Product

DOD Training: Opportunities Exist to Reduce the Training Infrastructure  
(GAO/NSIAD-96-93, March 29, 1996).

#### GAO Contact

Mark E. Gebicke, (202) 512-5140

## Option: DOD's Transportation Migration Systems

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Reassess objectives

In April 1994, DOD developed a structured approach to identify, select, and implement transportation migration systems.<sup>14</sup> However, in its haste to meet a March 1997 deadline, DOD selected these systems without fully analyzing alternatives, such as acquiring new systems or contracting for services. Further, in making a quarter of its transportation migration system selections, DOD relied on incomplete and unverified cost data. Finally, DOD did not assess how making significant changes to transportation operations—through reengineering and outsourcing—will affect its migration systems. By relying on such inadequate analyses in making its system selections, DOD essentially gambled that systems migration would achieve anticipated savings and resolve problems with transportation business processes. As a result, its selections may turn out to be poor investments and preclude the use of better commercial alternatives.

DOD has little assurance that its selection of 28 transportation migration systems is cost effective. At a minimum, had DOD followed its own regulations and calculated investment returns, it would have found—based on data available when the migration systems were selected—that two of the selected systems would produce a negative return if implemented as migration systems. The Air Loading Module would lose 67 cents out of every dollar invested and the Cargo Movement Operations Systems would lose 4 cents out of every dollar invested.

Before proceeding with its systems migration effort, DOD should immediately establish current cost, benefit, investment return, and schedule baselines and terminate the migration of transportation systems for which migration is shown to be a poor investment. For example, if the

<sup>14</sup>A migration system is an automated information system which replaces several systems that perform similar functions.

---

**Appendix III**  
**Options for Deficit Reduction**

---

Air Loading Module and the Cargo Movement Operations Systems were not deployed as migration systems, the following savings could be achieved.

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	3	0	0	0	0
Outlays	2	1	0	0	0

Source: Congressional Budget Office.

---

**Related GAO Products**

Defense IRM: Strategy Needed for Logistics Information Technology Improvement Efforts (GAO/AIMD-97-6, November 14, 1996).

Defense Transportation: Migration Systems Selected Without Adequate Analysis (GAO/AIMD-96-81, August 29, 1996).

---

**GAO Contact**

Jack L. Brock, Jr., (202) 512-6240

Option:  
DOD's Materiel  
Management  
Migration Systems

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	Defense Business Operations Fund (97-4930)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Reassess objectives

In December 1995, the Department of Defense (DOD) determined that its goal of developing a standard suite of nine integrated systems to improve various aspects of materiel management operations—including asset management, requirements determination, and inventory management—would cost much more than the \$5.3 billion originally estimated. DOD abandoned its plan to deploy all nine systems as an integrated suite across all inventory control points and now plans to deploy the systems individually as they are developed at selected sites. It has also embarked on an accelerated deployment schedule to provide these systems from fiscal year 1996 through 1999.

As a result, DOD is embarking on a new strategy before taking a number of steps to ensure that the hundreds of millions of dollars to be spent on materiel management systems, as well as the monies already invested, bring positive results. Specifically, DOD did not first conduct economic and risk assessments that would ensure its strategy would be cost-effective. DOD also did not incorporate efforts to improve, consolidate, and privatize logistics operations into its strategy. Such changes will impact the processes the systems are being developed to support. Further, this strategy was not justified within DOD's own oversight process, nor were documents critical to defining the program's objectives, costs, goals, and risk mitigation strategies prepared. As a result, DOD decisionmakers were not afforded an opportunity to thoroughly review the new program before deploying new systems.

Moreover, DOD is proceeding with deployments under the new strategy without accommodating the time required for testing the new systems. This greatly increases the risk that DOD will experience problems associated with shifting testing to system users and curtailing the levels of

---

testing normally done. As a result, DOD is likely to incur substantial additional costs to operate and maintain its current systems and to correct deficiencies with the new systems.

To provide more timely service, DOD made a major change in its materiel migration system<sup>15</sup> policy. In doing so, it is clearly on a course to accelerate system deployments before critical steps are taken that would help ensure that good business decisions are made and that risks are minimized. As a result, DOD is likely to deploy systems that will not be significantly better than the hundreds of systems already in place and could waste millions of dollars resolving problems that result from the lack of developing and implementing a clear and cohesive strategy. Before proceeding with any new strategy, it is imperative that DOD takes the necessary steps to fully define its approach, plan for risks, ensure adequate oversight, and complete testing of the new systems. DOD must also immediately establish current cost, benefit, investment return, and schedule baselines and terminate materiel management migration systems for which migration is shown to be a poor investment.

Savings for this option cannot be estimated at this time. The amount of savings would depend on the outcome of DOD's review of its systems.

---

## Related GAO Products

Defense IRM: Strategy Needed for Logistics Information Technology Improvement Efforts (GAO/AIMD-97-6, November 14, 1996).

Defense IRM: Critical Risks Facing New Materiel Management Strategy (GAO/AIMD-96-109, September 6, 1996).

---

## GAO Contact

Jack L. Brock, Jr., (202) 512-6240

---

<sup>15</sup>A migration system is an automated information system which replaces several systems that perform similar functions.

## Option: DOD's Bulk Fuel Budgeting

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

The Defense Fuel Supply Center (DFSC) has the primary responsibility for providing the services with the fuel they need. DFSC purchases the fuel from commercial sources and sells it to the services. Although DFSC is the primary source, the services also buy a small amount of fuel direct from commercial sources. For fiscal year 1996, the Army, Navy, and Air Force budget requests for bulk fuel totaled \$4.12 billion. Of this total, the three services planned to buy \$107 million, or 2.6 percent, from commercial sources. Therefore, the amount of funds requested to buy fuel from DFSC was about \$4.01 billion.

At the time that the Department of Defense (DOD) submitted its fiscal year 1996 budget request, DFSC estimated that the services would purchase about \$3.68 billion of fuel in fiscal year 1996, or about \$330 million less than the amount requested. During the authorization and appropriation process, the Congress reduced the budget request \$100 million. Based on historical usage data adjusted for factors expected to occur in fiscal year 1996, DFSC estimated, in February 1996, that the services' fuel purchases in fiscal year 1996 would be about \$3.57 billion, or about \$440 million less than the amount the services requested in their budgets.

For fiscal year 1997, the services have again requested more funds for fuel than they will need. The services budgeted for 117.8 million barrels of fuel at a cost of \$3.796 billion. However, DFSC estimates that the services will buy 113.2 million barrels at a cost of about \$3.613 billion, or \$183 million less than the services estimate.

Because the over budgeting for bulk fuel seems to be a recurring practice, the Congress may want to reduce the services' fiscal year 1998 budget requests by the \$183 million overbudgeted for fiscal year 1997.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	183	0	0	0	0
Outlays	136	36	6	2	1

Source: Congressional Budget Office.

---

**Related GAO Products**

1997 DOD Budget: Potential Reductions to Operation and Maintenance Program (GAO/NSIAD-96-220, September 18, 1996).

DOD Bulk Fuel: Budgeting for Bulk Fuel and Other Operation and Maintenance Activities (GAO/T-NSIAD-96-208, July 30, 1996).

DOD Bulk Fuel: Services' Fuel Requirements Could Be Reduced and Funds Used for Other Purposes (GAO/NSIAD-96-96, March 28, 1996).

---

**GAO Contact**

Mark E. Gebicke, (202) 512-5140

## Option: Navy Financial Management of Operating Materials and Supplies

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	Operations and Maintenance, Navy (17-1804)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

The Chief Financial Officers Act of 1990, as amended, requires that each agency Chief Financial Officer (CFO) develop an integrated agency accounting and financial management system that complies with applicable principles and standards and provides for complete, reliable, consistent, and timely information that is responsive to the agency's financial information needs. The act also specifies that each agency CFO should direct, manage, and provide policy guidance and oversight of asset management systems, including inventory management and control.

Our broad-based review of various aspects of the Department of the Navy's financial management operations and its ability to meet the management and reporting requirements of the CFO Act identified numerous deficiencies. These deficiencies can have significant budgetary implications. For example, we found that, because of inadequate systems, Navy item managers did not have sufficient visibility over \$5.7 billion in operating materials and supplies on ships and at 17 Navy redistribution sites. About \$883 million, 15 percent of the \$5.7 billion, was excess to current operating allowances or needs.

Lacking adequate visibility, item managers incurred unnecessary costs of approximately \$27 million in the first half of fiscal year 1995 as a result of ordering or purchasing items that were already on-hand at operating locations and classified as excess. Also, our analysis of planned purchases through the end of fiscal year 1997 showed that the Navy could incur an estimated additional \$38 million in unnecessary costs by procuring items which are already in operating level stock as excess.

We recommended that the Navy could achieve savings by providing item managers with full visibility over such materials and eliminating redundant

or unnecessary redistribution sites. Almost half of the excess items were stored at the Navy's 17 redistribution sites. These sites are often located in the same general area as other DOD suppliers. Eliminating the 17 sites would reduce associated operating costs by \$3 million annually and could reduce redundant supply operations and streamline visibility efforts.

Five-Year Savings

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	3	3	3	3	3
Outlays	2	3	3	3	3

Source: Congressional Budget Office.

Related GAO Products

Defense Financial Management (GAO/HR-97-3, February 1997).

Navy Financial Management: Improved Management of Operating Materials and Supplies Could Yield Significant Savings (GAO/AIMD-96-94, August 16, 1996).

CFO Act Financial Audits: Navy Plant Property Accounting and Reporting Is Unreliable (GAO/AIMD-96-65, July 8, 1996).

Financial Management: Control Weaknesses Increase Risk of Improper Navy Civilian Payroll Payments (GAO/AIMD-95-73, May 8, 1995).

GAO Contact

Lisa G. Jacobson, (202) 512-9542

## Option: Copayments for Care in Military Treatment Facilities

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	Defense Health Program (97-0130)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Redefine beneficiaries

Numerous GAO reports and testimonies have documented the problems of controlling costs in the military health service system. In particular, we have reported that currently care received by military beneficiaries in military hospitals and clinics is free. However, when care must be obtained through civilian providers, military beneficiaries share in the costs of the care they receive. This uneven system has led to confusion, uncertainty, and inequity among beneficiaries as to what their health care benefits are. Further, research has shown that free care leads to greater (and unnecessary) use and, therefore, greater costs.

The Department of Defense (DOD) managed care system—TRICARE—is intended to make health care benefits uniform regardless of venue, but some cost sharing is still based on where patients receive their care. Under TRICARE, beneficiaries pay the same enrollment fees whether they are enrolled with a military or civilian primary care manager. However, subsequent cost-sharing—in the form of copays for visits—is still not required for care provided in military clinics but is required for care from civilian providers.

The Congress may wish to establish beneficiary cost-sharing requirements in military facilities that are similar to the cost sharing for care that beneficiaries receive from civilian providers. CBO estimates that such a change would result in the following savings.

Five-Year Savings

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	305	300	302	305	307
Outlays	258	292	298	303	305
Savings from the 1997 funding level adjusted for inflation					
Budget authority	305	300	302	305	307
Outlays	258	292	298	303	305

Source: Congressional Budget Office.

Related GAO Products

Defense Health Care: New Managed Care Plan Progressing, but Cost and Performance Issues Remain (GAO/HEHS-96-128, June 14, 1996).

Defense Health Care: Despite TRICARE Procurement Improvements, Problems Remain (GAO/HEHS-95-142, August 3, 1995).

Defense Health Care: DOD's Managed Care Program Continues to Face Challenges (GAO/T-HEHS-95-117, March 28, 1995).

Defense Health Care: Issues and Challenges Confronting Military Medicine (GAO/HEHS-95-104, March 22, 1995).

Defense Health Care: Lessons Learned From DOD's Managed Health Care Initiatives (GAO/T-HRD-93-21, May 10, 1993).

Defense Health Care: Obstacles in Implementing Coordinated Care (GAO/T-HRD-92-24, April 7, 1992).

Defense Health Care: Implementing Coordinated Care—A Status Report (GAO/HRD-92-10, October 3, 1991).

The Military Health Services System—Prospects for the Future (GAO/T-HRD-91-11, March 14, 1991).

GAO Contact

Stephen P. Backhus, (202) 512-7111

## Option: Administering Defense Health Care

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	Defense Health Program (97-0130)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

Each of the three military departments (Army, Navy, and Air Force) operates its own health care system, providing medical care to active duty personnel, their dependents, retirees, and survivors of military personnel. To a large extent, these systems perform many of the same administrative, management, and operational functions.

Since 1949 over 22 studies have reviewed whether a central entity should be created within the Department of Defense (DOD) for the centralized management and administration of the three systems. Most of these studies encouraged some form of organizational consolidation. A Defense health agency would consolidate the three military medical systems into one centrally managed system, eliminating duplicate administrative, management, and operational functions. No specific budget estimate can be developed until numerous variables, such as the extent of consolidation and the impact on command and support structures, are determined.

DOD's implementation of a systemwide managed care program—TRICARE—adds to the advantages to be gained by eliminating the separate medical systems within the department. DOD has divided the country into 12 regions, each with its own administrative staff headed by a Lead Agent. These Lead Agents have the responsibility for administering TRICARE in their regions. However, because all of the operational control over medical facilities is still with the separate services, the Lead Agents do not have the command and control authority to manage the medical care delivered directly by DOD, which is most of the care received by military health care beneficiaries. Presumably, a single Defense health agency would incorporate this new regional structure and give Lead Agents genuine control over all DOD care in their regions.

---

Related GAO Products

Defense Health Care: New Managed Care Plan Progressing, but Cost and Performance Issues Remain (GAO/HEHS-96-128, June 14, 1996).

Defense Health Care: Medicare Costs and Other Issues May Affect Uniformed Services Treatment Facilities' Future (GAO/HEHS-96-124, May 17, 1996).

Defense Health Care: Effects of Mandated Cost Sharing on Uniformed Services Treatment Facilities Likely to Be Minor (GAO/HEHS-96-141, May 13, 1996).

Defense Health Care: Despite TRICARE Procurement Improvements, Problems Remain (GAO/HEHS-95-142, August 3, 1995).

Defense Health Care: DOD's Managed Care Program Continues to Face Challenges (GAO/T-HEHS-95-117, March 28, 1995).

Defense Health Care: Issues and Challenges Confronting Military Medicine (GAO/HEHS-95-104, March 22, 1995).

Defense Health Care: Lessons Learned From DOD's Managed Health Care Initiatives (GAO/T-HRD-93-21, May 10, 1993).

Defense Health Care: Obstacles in Implementing Coordinated Care (GAO/T-HRD-92-24, April 7, 1992).

Defense Health Care: Implementing Coordinated Care—A Status Report (GAO/HRD-92-10, October 3, 1991).

The Military Health Services System—Prospects for the Future (GAO/T-HRD-91-11, March 14, 1991).

---

GAO Contact

Stephen P. Backhus, (202) 512-7111

Option:  
Uniformed Services  
University of the  
Health Sciences

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

With the end of the draft in 1972, the military services needed new ways to obtain active duty physicians. To address this need, Public Law 92-426 established two complementary programs: the Health Profession Scholarship Program and the Uniformed Services University of the Health Sciences (USUHS), a medical school operated by DOD.

Under the scholarship program, DOD pays tuition and fees, plus a monthly stipend for students enrolled in civilian medical schools. In return, the students incur an obligation to serve a year of active duty for each year of benefits received, with a 2-year minimum obligation. Upon graduation, most scholarship program participants go on active duty and begin graduate medical education (GME) in military hospitals. In 1994, 987 scholarship program participants graduated from medical school.

Students at USUHS enter active military service as medical students, receive the pay and benefits of officers at the O-1 level, and incur 7-year service obligations. In 1994, 155 medical students graduated from the University. Overall, USUHS graduates represent about 14 percent of military physicians on active duty.

In the 2 decades since its legislative establishment, proposals have been made to close USUHS. Those who propose closing the University assert that DOD's need for physicians can be met at a lower cost using physicians educated at civilian medical schools under the DOD scholarship program. GAO's analysis shows that USUHS is a more costly source of military physicians on a per graduate basis when DOD's and total federal costs are considered. With DOD education and retention costs of about \$3.3 million over the course of a physician's career, the cost of a University graduate is more than 2 times greater than the \$1.5 million cost for a scholarship program graduate. However, GAO estimates show that the annual costs of

USUHS graduates (\$182,000) are comparable to scholarship graduates (\$181,000) when total federal costs are amortized over the expected years of military service because USUHS graduates are expected to have longer military careers and the University receives less non-DOD federal support than civilian medical schools. USUHS graduates are expected to serve for about 18.5 years, on average, while scholarship program physicians serve for 9.8 years, on average.

Those who propose retaining the University assert that it is needed to provide a stable cadre of physicians trained to meet the unique demands of military medicine. GAO's analysis shows that USUHS provides a medical education that compares well with that of other U.S. medical schools. However, while USUHS graduates begin their military medical careers with more readiness training than their peers, the significance of the additional training is unclear.

In addition, to help meet standards required for accreditation as an academic institution, USUHS provides education and training for other health care and related professions and engages in research, consultation, and archival activities. While these activities do not directly contribute to the education of military physicians, they do involve USUHS faculty and staff, and University officials believe that DOD would continue to conduct these activities even if USUHS is closed. USUHS officials estimated the value of these activities to be about \$18.6 million—a figure that GAO did not validate.

Given the changes in operational scenarios and DOD's approach for delivering peacetime health care, new assessments of the military's physician needs and the means to acquire and retain physicians are in order. If DOD continues to need a cadre of experienced career physicians, alternative strategies, such as an additional scholarship option with a longer service obligation, could be considered as a potentially less expensive way to increase the length of selected military physicians' careers.

This option assumes that (1) the University would close at the end of fiscal year 2000 after the current freshman class graduates, (2) the scholarship program would be expanded to offset the loss of physicians trained at USUHS, and (3) scholarship program participants incur a 2-year service obligation for each year of benefits received.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from 1997 funding level					
Budget authority	17	32	45	83	81
Outlays	14	28	42	76	79
Savings from 1997 funding levels adjusted for inflation					
Budget authority	19	37	53	94	94
Outlays	16	33	49	86	92

Source: Congressional Budget Office.

---

**Related GAO Product**

Military Physicians: DOD's Medical School and Scholarship Program  
(GAO/HEHS-95-244, September 29, 1995).

---

**GAO Contact**

Stephen P. Backhus, (202) 512-7111

## Option: Uniformed Services Treatment Facilities

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	Defense Health Program (97-0130)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Redefine beneficiaries

In 1982, the Congress enacted legislation that designates nine former Public Health Service hospitals now under civilian ownership as Uniformed Services Treatment Facilities (USTF) and makes them part of the Department of Defense's (DOD) health care system. Between 1994 and 1997, DOD has spent over \$1.3 billion on noncompetitive, set-aside contracts with the USTFs to deliver health care to what now totals about 124,000 beneficiaries. This arrangement with DOD has guaranteed the USTFs, in addition to their private health care business, a stable revenue source by enabling them to provide care to uniformed services beneficiaries. The USTFs offer their members the full Civilian Health and Medical Program of the Uniformed Services (CHAMPUS)<sup>16</sup> benefit package plus additional preventive services not covered by CHAMPUS. But unlike CHAMPUS, USTF members do not lose their eligibility when they reach age 65 and become Medicare-eligible. At the beginning of fiscal year 1996, 22 percent (about 27,000) of the USTF members were Medicare-eligible.

GAO and others have reported that the USTFs are not as cost-effective as alternative federal sources of health care. The Institute for Defense Analyses estimated that the USTFs cost the government \$110 million more per year than what costs would be if the beneficiaries had to rely on the current military health services system and Medicare for their care. Also, the Institute reported that high numbers of USTF beneficiaries have private insurance coverage, and GAO found that many are receiving Medicare services outside the USTF, even though DOD has already paid the USTFs in advance for all USTF members' care. In response to GAO's

<sup>16</sup>CHAMPUS is a fee-for-service health insurance program that pays for a substantial part of the health care that civilian hospitals, physicians, and others provide to nonactive duty DOD beneficiaries. DOD is in the process of changing its military health services system from the separate systems of direct care in military facilities and CHAMPUS to TRICARE, a nationwide managed care program. TRICARE involves managing beneficiary care using all available military hospitals and clinics, supplemented by contracted civilian services. TRICARE offers CHAMPUS-eligible beneficiaries choice between three benefit plans—fee for service, preferred provider, and health maintenance organization.

recommendations, DOD and the Health Care Financing Administration have recently estimated about \$33 million in unnecessary costs to the government from USTF members' use of Medicare between October 1993 and December 1995.

The Congress included reforms in the fiscal year 1997 DOD authorization act to reduce the relative costliness of the USTFs compared with alternative programs, such as military hospitals, TRICARE, and Medicare. However, before any savings can be realized, DOD must complete new sole-source contract negotiations with each USTF. An immediate, cost-effective, and equitable option would be to terminate the USTF program by repealing the hospitals' status as designated, sole-source providers of DOD health care. Instead, former USTF beneficiaries would be treated the same way all other DOD beneficiaries are treated under DOD's managed care support contracts and direct care system. Such beneficiaries would retain their eligibility for Medicare-financed care, as well as DOD's direct care system. And, as noted above, a high number of such beneficiaries already have private insurance. Ending the USTFs' current sole-source, noncompetitive contractual relationship with DOD would remove their decided business advantage over other, competitive TRICARE providers.

#### Five-Year Savings

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	118	107	95	81	71
Outlays	118	107	95	81	71
Savings from the 1997 funding level adjusted for inflation					
Budget authority	121	122	123	128	128
Outlays	121	122	123	128	128

Source: Congressional Budget Office.

#### Related GAO Products

Defense Health Care: Medicare Costs and Other Issues May Affect Uniformed Services Treatment Facilities' Future (GAO/HEHS-96-124, May 17, 1996).

Defense Health Care: Effects of Mandated Cost Sharing on Uniformed Services Treatment Facilities Likely to Be Minor (GAO/HEHS-96-141, May 13, 1996).

---

**Appendix III**  
**Options for Deficit Reduction**

---

Defense Health Care: Uniformed Services Treatment Facility Health Care Program (GAO/HEHS-94-174, June 2, 1994).

---

**GAO Contact**

Stephen P. Backhus, (202) 512-7111

Option:  
Department of  
Energy's Procurement  
of Laboratory Testing  
Services

Authorizing committees	Energy and Natural Resources (Senate) Resources (House) Commerce (House)
Appropriations subcommittees	Energy and Water Development (Senate and House)
Primary agency	Department of Energy
Account	Defense Environmental Restoration and Waste Management (89-0242)
Spending type	Discretionary
Budget subfunction	Atomic Energy Defense Activities
Framework theme	Improve efficiency

Both the Department of Energy (DOE) and the Environmental Protection Agency (EPA) are responsible for large environmental cleanup efforts. A major component of DOE's cleanup program involves analyses of toxic and radioactive contaminants. DOE has estimated that these analyses may cost the federal government more than \$15 billion over the next 30 years. While both agencies analyze nonradioactive organic and inorganic chemicals using some of the same testing methods, the agencies procure these commonly-used analyses in a different manner. EPA centrally contracts for them while DOE employs a decentralized procurement approach that relies heavily on its operating contractors to subcontract for them through commercial laboratories.

Under its procurement approach, DOE pays higher prices to its commercial laboratories than EPA does for the same analyses and methods, partly because decentralized purchasing practices do not produce price competition, volume discounts, and compliance with one standard contract format. Also, DOE's decentralized approach to procuring commonly-used analyses results in duplication of contractor efforts in the award and management of commercial laboratory subcontracts, which adds inefficiencies and increases administrative costs. GAO's analysis indicates that if DOE contracted for these services through one central procurement function, similar to EPA's approach, it would receive substantially lower prices from commercial laboratories by consolidating its overall buying power and greatly reduce the inherent duplication in contract award and oversight activities. DOE is currently attempting to contract for these services on a regional basis.

---

**Appendix III**  
**Options for Deficit Reduction**

---

DOE estimated that laboratory analyses costs are at least 15 percent of its cleanup costs, and in fiscal year 1997, DOE was appropriated about \$6 billion for Defense Environmental Restoration and Waste Management. While we believe savings could be achieved through centralization, a 5-year savings amount is difficult to estimate for several reasons, including the lack of current and complete data and the extent to which DOE's prices would be affected by the potential for radioactivity in DOE's samples.

---

**Related GAO Product**

Nuclear Facility Cleanup: Centralized Contracting of Laboratory Analysis Would Produce Budgetary Savings (GAO/RCED-95-118, May 8, 1995).

---

**GAO Contact**

Victor S. Rezendes, (202) 512-3841

---

## **150 International Affairs**

- USAID's Housing Guaranty Program
- Excess Real Estate at Overseas Diplomatic Posts
- Overseas Diplomatic Posts
- State Department Functions and Activities
- State Department Support Functions
- TV Marti
- USIA Exchange Programs
- USIA Overseas Posts, Activities, and Cultural Centers
- International Broadcasting
- Risk-Based Exposure Fees for Export-Import Bank
- Export-Import Bank Programs

## Option: USAID's Housing Guaranty Program

Authorizing committees	Foreign Relations (Senate) International Relations (House)
Appropriations subcommittees	Foreign Operations (Senate and House)
Primary agency	Agency for International Development
Account	Housing Guaranty Program Account (72-0401)
Spending type	Discretionary
Budget subfunction	International Development and Humanitarian Assistance
Framework theme	Reassess objectives

The Foreign Assistance Act of 1961, as amended, authorizes the U.S. Agency for International Development (USAID) to guaranty loans made by U.S. investors to borrowers in developing countries for shelter-related projects. With this authority, USAID operates the Housing Guaranty Program. A long-run goal of this program is to increase shelter for low-income families in developing countries by stimulating local credit institutions to provide the necessary investment capital and other resources. Since 1961, USAID has guarantied over \$2.7 billion in loans to 44 countries for home construction, mortgages, home improvements, urban infrastructure, and other shelter-related projects.

In June 1995, GAO reported that USAID had not achieved the key objectives of the Housing Guaranty Program despite over 30 years of trying. GAO's analysis showed that U.S.-sponsored housing construction projects had not actually stimulated private investment. Nonetheless, USAID continued to guaranty loans for housing projects under this program. Furthermore, GAO found that USAID does not always know whether the program is benefiting the poor target population. On the contrary, we found numerous instances where the program was benefiting higher-income families. We also reported that many borrowers have defaulted on previous loan payments forcing USAID, as guarantor, to make these payments for them. The fees that USAID charges borrowers do not generate sufficient income to cover these costs.

GAO recommended that the Congress terminate the program. Although defaults on outstanding loan balances could cost USAID in excess of \$1 billion, CBO estimates that terminating the Housing Guaranty Program would produce \$24 million in savings over 5 years.

**Appendix III**  
**Options for Deficit Reduction**

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	4	4	4	5	5
Outlays	0	1	2	3	3
Savings from the 1997 funding level adjusted for inflation					
Budget authority	4	5	5	5	5
Outlays	0	1	2	3	4

Source: Congressional Budget Office.

**Related GAO Product**

Foreign Housing Guaranty Program: Financial Condition Is Poor and Goals Are Not Achieved (GAO/NSIAD-95-108, June 2, 1995).

**GAO Contact**

Benjamin F. Nelson, (202) 512-4128

## Option: Excess Real Estate at Overseas Diplomatic Posts

Authorizing committees	Foreign Relations (Senate) International Relations (House)
Appropriations subcommittees	Commerce, Justice, State, the Judiciary, and Related Agencies (Senate and House)
Primary agency	Department of State
Account	Security and Maintenance of U.S. Missions (19-0535)
Spending type	Discretionary
Budget subfunction	Conduct of Foreign Affairs
Framework theme	Reassess objectives

The Department of State has millions of dollars invested in overseas properties that may be unneeded or too expensive to maintain. Proper management of the sale of these assets could generate considerable revenue. State's process for selling unneeded real estate requires weighing multiple factors presented by different groups with competing interests. Resistance from the host government can add further to delays in selling these properties. Resolving these differences often stalls potential sales for years. Furthermore, State has the authority to retain and use the proceeds from real estate sales for other facilities' needs without specific approval from the Office of Management and Budget (OMB) or the Congress. The Congress did not appropriate funds for any new facilities in fiscal year 1997; therefore, State will likely use sales receipts for that purpose. To reduce the deficit, the Congress would have to restrict the proceeds from the asset sales from reverting to the State Department.

As of October 1995, State had a list of over 100 properties for potential sale valued at \$467 million, including high-value properties in Manila, Paris, Singapore, and Bangkok. In addition, our review of State's records identified other properties not on the list that potentially could be sold, including properties at closed posts in Zanzibar, Tanzania, and Alexandria, Egypt; and properties that are vacant or unsuitable for the purposes for which they were acquired including high-value properties in Hamilton, Bermuda, and Buenos Aires, Argentina.

The 104th Congress endorsed our recommendation that the Department of State establish an independent panel to review and recommend the sale of real estate. The panel could review the list identified by State as well as properties identified in our report or by other sources. If State establishes a panel to review and sell only those properties it has identified, and if the

Congress specifically restricted the proceeds from reverting back to the State Department, CBO estimates that \$150 million in assets could be generated and earmarked for deficit reduction over the next five years. We believe that substantial additional revenues could be generated through the sale of other assets, such as the property in Hamilton, Bermuda, and Buenos Aires, Argentina.

In addition, in 1995 we reported that certain high-value properties in Tokyo are unneeded. Our analysis demonstrated the feasibility of—and identified options for—selling portions of this property. For example, selling the Deputy Chief of Mission residence and constructing a less costly replacement residence on the government-owned housing compound could generate proceeds that could be used for deficit reduction. The State Department has rejected this option because the embassy desired to retain the facility for representational purposes.

The current sales value of the Tokyo property is uncertain. There has been no recent appraisal of the Deputy Chief of Mission residence, but in 1990, it was valued at \$92 million. Embassy information, based on Japanese government reports in September 1994, shows that residential property values have declined about 30 percent since 1990. GAO assumes that the Deputy Chief of Mission residence is valued at \$40 million—less than 50 percent of its value in 1990. In preparing the following estimate, CBO assumes that the construction of the new Deputy Chief of Mission residence on the Mitsui compound would cost \$4 million and that the sale of the old residence would take place after the construction of the replacement residence is completed. The sale of the old residence for \$40 million would count towards deficit reduction only if the Congress specifically restricted the proceeds from reverting back to the State Department.

**Five-Year Savings**

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Option: Sell unnecessary real estate at overseas diplomatic posts					
Asset sale					
Budget authority	30	30	30	30	30
Outlays	9	17	24	29	30

Source: Congressional Budget Office.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>
Option: Sell high value property in Tokyo					
Asset sale					
Budget authority	-4	0	0	0	40
Outlays	-1	-1	-1	-1	40

Source: Congressional Budget Office.

---

**Related GAO Products**

State Department: Options for Addressing Possible Budget Reductions  
(GAO/NSIAD-96-124, August 29, 1996).

Overseas Real Estate: Millions of Dollars Could Be Generated By Selling Unneeded Real Estate (GAO/NSIAD-96-36, April 23, 1996).

Overseas Real Estate: Inaction on Proposals to Sell High-Value Property in Tokyo (GAO/NSIAD-95-73, April 7, 1995).

---

**GAO Contact**

Benjamin F. Nelson, (202) 512-4128

## Option: Overseas Diplomatic Posts

Authorizing committees	Foreign Relations (Senate) International Relations (House)
Appropriations subcommittees	Commerce, Justice, State, the Judiciary, and Related Agencies (Senate and House)
Primary agency	Department of State
Account	Diplomatic and Consular Programs (19-0113) Salaries and Expenses (19-0107)
Spending type	Discretionary
Budget subfunction	Conduct of Foreign Affairs
Framework theme	Reassess objectives

In fiscal year 1995, State spent about \$1.9 billion, or almost 70 percent of its budget, operating overseas posts. State maintains a diplomatic presence in 252 overseas locations, including countries where the United States has limited interests. Because overseas posts consume such a large portion of State's operating budget, closing posts or reducing their size offers the greatest potential for achieving substantial budget reductions. Balanced, thoughtful decisions on closing and/or reducing the size of posts must be made to ensure that U.S. interests are well served overseas and Americans are protected within available funding.

In response to funding constraints in recent years, State has closed and reduced the size of a number of posts and has proposed the closure of additional posts. However, it has made little headway because of internal and external resistance to these changes. In GAO's August 1996 report, we suggested that one strategy to reduce the controversy surrounding post closings would be to establish an independent post closure panel like the Defense Base Closure and Realignment Commission. Such an approach would allow for decision-making based on the need to support both State and non-State activities, consistent with overall U.S. policy interests and priorities as well as available resources. It would also have the advantage of mitigating at least some of the pressures and parochial interests that have historically operated to maintain a U.S. overseas presence in some locations.

Reducing the number of overseas posts might be accomplished in any number of ways. For example, one option would be to use multiple country accreditation in some regions, where an ambassador operating from a regional post would "circuit ride" to several small, neighboring

countries, eliminating the need for permanent embassy structures in each country. Regional posts would allow consolidation of staff and other resources, although cost reductions would be offset to some degree by travel and other related expenses. The British government employs this approach in some African countries, and the U.S. Embassy in Bridgetown, Barbados, executes diplomatic responsibilities for a number of countries in the eastern Caribbean. State could expand this approach to include other regions, such as the Baltic States, Africa, and countries in South America. The State Department's financial management systems could not readily provide post-specific operating costs and closing costs to estimate the savings for this option. However, we calculate that if State closed 20 small embassies and employed the "circuit rider" approach to cover its diplomatic responsibilities in these countries, State could reduce its costs by up to \$40 million annually, after closing costs have been dealt with and if the U.S. direct-hire positions were eliminated.

A second option would be to reevaluate the need for State's 77 consulates and consulates general. Although many consulates are small or moderately sized, some are bigger and more expensive to operate than major embassies. Some believe that the end of the Cold War, expanded media coverage, and improved information and telecommunications technology make it possible for State to close consulates and consolidate staff at embassies or other consulates located in the same countries. Our analysis has shown that if State closed one of its largest consulate generals it could reduce its annual operating costs by nearly \$20 million, after closing costs have been dealt with and if the U.S. direct-hire positions were eliminated.

Another way to reduce costs would be to reduce overseas staffing—an item that accounts for a large portion of overseas costs. Large and comprehensive posts understandably absorb a disproportionate share of the total costs of U.S. overseas posts and, therefore, represent a significant opportunity in this regard. In fiscal year 1995, the cost of operating the posts in Germany alone totaled over \$90 million. The cost of operating the posts in Japan totaled over \$54 million during the same period. Although the cost reductions from eliminating U.S. direct-hire positions overseas vary by region and post, using average costs, CBO estimates that \$45 million could be saved by eliminating 100 such positions through attrition over 5 years.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Option: Eliminating 100 overseas positions					
Savings from 1997 funding level					
Budget authority	3	6	9	12	15
Outlays	3	5	8	11	14
Savings from the 1997 funding level adjusted for inflation					
Budget authority	3	6	9	12	15
Outlays	3	5	8	11	14

Source: Congressional Budget Office.

---

**Related GAO Products**

State Department: Options for Addressing Possible Budget Reductions  
(GAO/NSIAD-96-124, August 29, 1996).

Overseas Presence: Staffing at U.S. Diplomatic Posts (GAO/NSIAD-95-50FS,  
December 28, 1994).

State Department: Overseas Staffing Process Not Linked to Policy  
Priorities (GAO/NSIAD-94-228, September 20, 1994).

---

**GAO Contact**

Benjamin F. Nelson (202) 512-4128

## Option: State Department Functions and Activities

Authorizing committees	Foreign Relations (Senate) International Relations (House)
Appropriations subcommittees	Commerce, Justice, State, the Judiciary, and Related Agencies (Senate and House)
Primary agency	Department of State
Account	Diplomatic and Consular Programs (19-0113) Salaries and Expenses (19-0107)
Spending type	Discretionary
Budget subfunction	Conduct of Foreign Affairs
Framework theme	Improve efficiency

The Department of State's functional bureaus share responsibility with several other U.S. agencies on various overlapping policy issues. The involvement of many agencies in similar or related functions does not mean the agencies unnecessarily duplicate activities, but it does suggest the potential for consolidation or transfer of some of State's duties. For example, we identified nearly 30 agencies and offices involved in trade policy and export promotion, about 35 engaged in global programs, and over 20 involved in international security functions. For many of these functions, several offices and bureaus within State headquarters and overseas posts are involved.

State's costs could be reduced by lessening the degree of its involvement in functions that overlap with other agencies or by lessening overlap within State's offices. For example, CBO estimates that if the 45 overseas labor attache and 6 corresponding headquarters positions were eliminated through attrition over five years it would produce savings of \$30 million. According to several officials at overseas posts, labor issues could be adequately covered by political and/or economic officers. In addition, several State bureaus monitor labor issues. State has proposed abolishing or lowering the rank of some labor attache positions in the past but has encountered resistance from the Department of Labor and others.

In addition, State could cut costs if some of its legislatively mandated workload requirements were reduced. In fiscal year 1996, State was required to produce over 130 congressionally mandated reports. While some reports could be eliminated or curtailed, it is not clear which are the best candidates because their cost and relative value to the users are not known. For example, country reports on economic policy and trade

---

**Appendix III**  
**Options for Deficit Reduction**

---

practices, required by the Omnibus Trade and Competitiveness Act of 1988, consume the equivalent of 5 staff years at headquarters and 100 posts at an annual cost of at least \$500,000 and State Department officials indicated that the information in the reports is available through other sources. Since the personnel and expenses involved in preparing these reports would likely be reallocated rather than eliminated, CBO does not anticipate any budgetary savings from this option.

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Option: Eliminating Labor Attache and corresponding headquarters positions					
Savings from the 1997 funding level					
Budget authority	2	4	6	8	10
Outlays	2	4	6	8	9
Savings from the 1997 funding level adjusted for inflation					
Budget authority	2	4	6	8	10
Outlays	2	4	6	8	9

Source: Congressional Budget Office.

---

**Related GAO Products**

Foreign Affairs: Perspectives on Foreign Affairs Programs and Structures  
(GAO/NSIAD-97-6, November 8, 1996).

State Department: Options for Addressing Possible Budget Reductions  
(GAO/NSIAD-96-124, August 29, 1996).

---

**GAO Contact**

Benjamin F. Nelson, (202) 512-4128

Option:  
State Department  
Support Functions

Authorizing committees	Foreign Relations (Senate) International Relations (House)
Appropriations subcommittees	Commerce, Justice, State, the Judiciary, and Related Agencies (Senate and House)
Primary agency	Department of State
Accounts	Diplomatic and Consular Programs (19-0113) Salaries and Expenses (19-0107)
Spending type	Discretionary
Budget subfunction	Conduct of Foreign Affairs
Framework theme	Improve efficiency

In fiscal year 1995, State allotted \$1.8 billion, or about 65 percent of its budget, to domestic and overseas support operations. These funds provided support for both Department staff and employees from other federal agencies. Centrally funded operations account for approximately \$1.1 billion of the support budget and cover central administration costs and the costs of running several regional centers that provide financial and information management services to overseas posts. The geographic bureaus control the remaining portion of State's support budget, which is largely used to fund the salaries of those employees in support positions.

Cost-cutting measures being considered by State include hiring more U.S. family members to fill overseas staffing positions, increasing employees' payments for medical services, and increasing the length of overseas tours. Over the long term, State hopes to further reduce its operating expenses through business process reengineering and the outsourcing of certain support functions. In both areas, however, only limited progress has been made.

GAO identified several additional options State could implement to adjust to potential budget cuts as well as some of the potential adverse consequences of these options. These options include (1) expanding the use of foreign service nationals (FSN) in support positions at overseas posts, (2) reviewing employees' benefits and allowances, and (3) reviewing support staff levels in headquarters.

While cost-savings estimates for the last two options are not available until reforms are specified, CBO estimates that expanding the use of foreign nationals in selected posts could result in \$165 million in savings over 5

---

**Appendix III**  
**Options for Deficit Reduction**

---

years. Specifically, State could increase its use of FSNS to replace Foreign Service specialists working in non-sensitive positions. Employment of FSNS is far less costly than the employment of Foreign Service specialists because FSNS do not receive the benefits and allowances payable to Foreign Service employees. We estimate that State currently has 500 Foreign Service specialists in six job categories it considers nonsensitive.

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	11	22	33	44	55
Outlays	9	20	30	41	52
Savings from the 1997 funding level adjusted for inflation					
Budget authority	11	22	33	44	55
Outlays	9	20	30	41	52

Source: Congressional Budget Office.

---

**Related GAO Products**

Foreign Affairs: Perspectives on Foreign Affairs Programs and Structures  
(GAO/NSIAD-97-6, November 8, 1996).

State Department: Options for Addressing Possible Budget Reductions  
(GAO/NSIAD-96-124, August 29, 1996).

State Department: Actions Needed to Improve Embassy Management  
(GAO/NSIAD-96-1, March 12, 1996).

State Department: Widespread Management Weaknesses at Overseas Embassies  
(GAO/T-NSIAD-93-17, July 13, 1993).

State Department: Survey of Administrative Issues Affecting Embassies  
(GAO/NSIAD-93-218, July 12, 1993).

---

**GAO Contact**

Benjamin F. Nelson, (202) 512-4128

## Option: TV Marti

Authorizing committees	Foreign Relations (Senate) International Relations (House)
Appropriations subcommittees	Commerce, Justice, State, and the Judiciary, and Related Agencies (Senate and House)
Primary agency	U.S. Information Agency
Account	Broadcasting to Cuba (67-0208)
Spending type	Discretionary
Budget subfunction	Foreign Information and Exchange Activities
Framework theme	Reassess objectives

The U.S. Information Agency (USIA) recognizes that although it provides television broadcasts to Cuba through TV Marti, the broadcasts are constantly and effectively jammed. USIA's research data shows that, mainly as a result of the jamming, the number of Cubans who are able to watch the broadcasts is small. Other factors that decrease effectiveness of TV Marti include broadcast hours that are not convenient to viewers and a broadcast signal that does not reach much beyond the greater Havana area. The U.S. Advisory Commission on Public Diplomacy has reported that TV Marti is not cost-effective and has repeatedly recommended that it be terminated. In March 1994, the Advisory Panel on Radio Marti and TV Marti concluded that TV Marti cannot be considered cost-effective and would not be cost-effective unless the viewing audience in Cuba could be substantially expanded. TV Marti broadcasts daily from 3:30 am to 8 am, but Cuba jams the broadcasts. In an attempt to overcome jamming, TV Marti is converting from VHF to UHF transmission even though Cuba could acquire equipment to jam the new signal at relatively little cost. Further, GAO has criticized controls over program quality and objectivity, and according to the Advisory Panel, identified problems do not appear to have been fully resolved.

The Congress may wish to eliminate TV Marti given its persistent problems and its limited ability to achieve its goals. The savings that could be achieved if TV Marti were eliminated are shown in the following table.

**Appendix III**  
**Options for Deficit Reduction**

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	6	11	11	11	11
Outlays	5	10	11	11	11
Savings from the 1997 funding level adjusted for inflation					
Budget authority	6	12	12	13	13
Outlays	5	11	12	13	13

Source: Congressional Budget Office.

**Related GAO Products**

TV Marti: Costs and Compliance With Broadcast Standards and International Agreements (GAO/NSIAD-92-199, May 6, 1992).

Broadcasts to Cuba: TV Marti Surveys Are Flawed (GAO/NSIAD-90-252, August 9, 1990).

**GAO Contact**

Benjamin F. Nelson, (202) 512-4128

## Option: USIA Exchange Programs

Authorizing committees	Foreign Relations (Senate) International Relations (House)
Appropriations subcommittees	Commerce, Justice, State, the Judiciary, and Related Agencies (Senate and House)
Primary agency	U.S. Information Agency
Account	Educational and Cultural Exchange Programs (67-0209)
Spending type	Discretionary
Budget subfunction	Foreign Information and Exchange Activities
Framework theme	Reassess objectives

The U.S. Information Agency (USIA) manages a variety of exchange programs to foster mutual understanding between the people of the United States and other countries. In 1994, USIA academic exchanges accounted for less than 24 percent of all U.S. government-funded international exchange and training activities. In fiscal year 1996, these exchanges cost about \$210 million plus approximately \$29 million to manage them.

In recent years, funding levels have not permitted USIA to maintain the same number of exchanges it supported in the past. Should funding be further reduced, options to cut costs include eliminating certain exchanges entirely, reducing the amount of funds USIA allocates to each program, or obtaining more financial support from the private sector or foreign governments. The advisability of implementing any or all of these options would need to be evaluated along with the impact such actions might have on U.S. bilateral relationships and on the promotion of ties between private citizens and organizations in the United States and abroad. Whether the federal government still needs to fund each exchange, whether the exchange is targeted at the most appropriate countries, whether it is unique and unavailable from the private sector, and whether it is effective are questions requiring review if the budget for exchanges is significantly cut.

Savings resulting from reduced funding for certain programs would depend on the specific programs and the level of cuts. Likewise, savings that result from obtaining more financial support from the private sector would depend on specific negotiations with companies and new bilateral agreements with other countries. However, critics of one program, USIA's

high school exchange, argue that it is more expensive and has less immediate impact than other programs. For example, in fiscal year 1995 USIA spent more than \$56 million on the Congress-Bundestag Program with Germany and the Freedom Support Act/Newly Independent States and Support for East European Democracy Act Programs that specialized in exchanges of secondary school students and educators. CBO estimates that \$222 million in savings over 5 years could be generated if these programs were eliminated.

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	41	41	41	41	41
Outlays	21	36	39	41	41
Savings from the 1997 funding level adjusted for inflation					
Budget authority	42	43	44	46	47
Outlays	21	37	42	44	46

Source: Congressional Budget Office.

**Related GAO Products**

U.S. Information Agency: Options for Addressing Possible Budget Reductions (GAO/NSIAD-96-179, September 23, 1996).

Exchange Programs: Inventory of International Educational, Cultural, and Training Programs (GAO/NSIAD-93-157BR, June 23, 1993).

Exchange Programs: Observations on International Educational, Cultural, and Training Programs (GAO/T-NSIAD-93-7, March 23, 1993).

**GAO Contact**

Benjamin F. Nelson, (202) 512-4128

## Option: USIA Overseas Posts, Activities, and Cultural Centers

Authorizing committees	Foreign Relations (Senate) International Relations (House)
Appropriations subcommittees	Commerce, Justice, State, the Judiciary, and Related Agencies (Senate and House)
Primary agency	U.S. Information Agency
Accounts	Salaries and Expenses (67-0201) Educational and Cultural Exchange Programs (67-0209)
Spending type	Discretionary
Budget subfunction	Foreign Information and Exchange Activities
Framework theme	Reassess objectives

The mission of the U.S. Information Agency (USIA) is to explain and advocate U.S. policy to foreign publics, provide information about the United States, build lasting relationships and mutual understanding, and advise U.S. decisionmakers on foreign public opinion and its implications for the United States. In fiscal year 1996, USIA spent \$310 million, or about 28 percent of its \$1.1 billion budget, on personnel, infrastructure, programs and headquarters activities to support its 199 overseas posts in 143 countries.

Although U.S. foreign policy objectives may have changed in light of post-cold war needs, USIA has not determined if its organizational structure and public diplomacy programs have outlived their usefulness. Agency officials believe it is difficult to link a program to a desired result, and existing evidence of impact is largely anecdotal. However, such assessments are critical to USIA's ability to remain viable while managing budgetary reductions.

This option is divided into three parts: eliminating some USIA overseas posts, activities, and cultural centers.

## Posts

GAO reported in 1996 that USIA maintains overseas missions in countries that are relatively less important to the U.S. foreign policy and retains overseas infrastructure and programs which may no longer be relevant. For example, in fiscal year 1997 at a cost of about \$29 million, USIA operated posts in more than 50 countries where it believed the United States had limited public diplomacy goals.

Reducing or eliminating these posts or activities are options to lower costs but actual savings will depend on the current costs of the posts closed or reduced. Based on fiscal year 1997 costs, CBO estimates that closing these posts in countries where the United States has limited public diplomacy goals would produce \$148 million in savings over 5 years.

---

## Activities

One activity we believe merits review is USIA's student advising operation. USIA spends about \$2.6 million annually to subsidize more than 400 educational advisory centers worldwide that provide information about the U.S. system of education. Some of these centers are housed in USIA offices and are fully funded by the U.S. government. Others are operated by host country universities or U.S. nonprofit organizations and are partially funded by USIA. An additional \$1.4 million is spent annually for training, materials, and other activities.

Proponents of the student advising operation believe that it is in the best interests of the United States to support student advising because international students spend nearly \$7 billion a year in the United States, contributing substantially to the U.S. economy, and American students are introduced to different cultures, enhancing diversity. Critics have concluded, however, that new worldwide trends to internationalize higher education, advancements in communication technology, and the increased sophistication of non-U.S.-government-sponsored educational advising institutions indicate that a guidance and oversight role for USIA is more appropriate than an operational one. They argue that the increase in private sector counseling services, coupled with dwindling USIA resources, suggest it is an appropriate time for USIA to turn over its educational advising role to the private sector. CBO estimates that eliminating student advising operations would result in savings of \$15 million over 5 years.

---

## Cultural Centers

USIA maintains more than 70 cultural centers, libraries, and branch offices overseas. Because they may not be colocated with an embassy and require staff to deal directly with the public, they are often expensive to operate. In Germany, for example, the fiscal year 1995 cost to operate six cultural centers (called America Houses) was nearly \$9 million, which was for 77 staff and for activities such as reference centers with online databases, student counseling activities, and cultural events.

USIA could cut costs by finding alternatives for its cultural centers. For example, critics of the cultural centers believe that binational centers are a

**Appendix III**  
**Options for Deficit Reduction**

cost-effective alternative to cultural centers. Binational centers are private, autonomous institutions established to promote mutual understanding between the United States and host countries. USIA may have only minimal or no funds invested in the centers and may or may not assign staff. USIA successfully encouraged the formation of a binational center when funding limitations forced it to close an America House in Germany. The agency collaborated with private industry and the local German government to establish a German-American Institute to further relations through cultural and educational events. CBO estimates that if USIA closed its cultural centers it could achieve \$141 million in savings over 5 years.

**Five-Year Savings**

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Option: Eliminate USIA posts					
Savings from the 1997 funding level					
Budget authority	16	29	29	29	29
Outlays	13	27	29	29	29
Savings from the 1997 funding level adjusted for inflation					
Budget authority	17	31	32	33	35
Outlays	14	29	32	33	35

Source: Congressional Budget Office.

**Five-Year Savings**

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Option: Eliminate student advising operations					
Savings from the 1997 funding level					
Budget authority	2	3	3	3	3
Outlays	2	3	3	3	3
Savings from 1997 funding level adjusted for inflation					
Budget authority	2	3	3	3	4
Outlays	2	3	3	3	4

Source: Congressional Budget Office.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Option: Eliminate USIA cultural centers					
Savings from the 1997 funding level					
Budget authority	14	28	28	28	28
Outlays	12	26	28	28	28
Savings from 1997 funding level adjusted for inflation					
Budget authority	15	30	31	32	33
Outlays	13	27	31	32	33

Source: Congressional Budget Office.

---

**Related GAO Product**

U.S. Information Agency: Options for Addressing Possible Budget Reductions (GAO/NSIAD-96-179, September 23, 1996).

---

**GAO Contact**

Benjamin F. Nelson, (202) 512-4128

## Option: International Broadcasting

Authorizing committees	Foreign Relations (Senate) International Relations (House)
Appropriations subcommittees	Foreign Operations (Senate and House)
Primary agency	U.S. Information Agency
Account	International Broadcasting Operations (67-0206)
Spending type	Discretionary
Budget subfunction	Foreign Information and Exchange Activities
Framework theme	Reassess objectives

The United States broadcasts over 1,600 hours of radio programming in 53 languages and over 400 hours of television in several languages weekly to support U.S. foreign policy objectives. In fiscal year 1996, \$405 million, or 38 percent of the U.S. Information Agency's budget supported the Voice of America (VOA) (47 languages), Radio Free Europe/Radio Liberty (RFE/RL) (21 languages), Radio and TV Marti broadcasts to Cuba, and Worldnet television broadcasts. Also, Radio Free Asia (RFA) began broadcasting to China in September 1996 and to Tibet in December 1996. VOA, RFE/RL, and RFA have different purposes and therefore broadcast in some of the same languages. VOA's mission is to provide accurate and objective world news and present a balanced portrayal of U.S. institutions and policies. In contrast, RFE/RL's and RFA's mission is to present accurate news about political, social, and economic developments within the countries themselves in the absence of fully functional or free media.

Funding for international broadcasting has dropped considerably since fiscal year 1994 as VOA and RFE/RL consolidated functions such as engineering, eliminated overlapping broadcast hours to the same target audience, and cut 1,500 positions. Further savings would require changes in the number of language services and/or broadcast hours. Over the years, very few language services have been terminated despite changing world conditions. The Broadcasting Board of Governors is developing a plan to review all language services and broadcast entities to determine their continued need and effectiveness. This review may identify less necessary language services that could be eliminated. Estimated annual savings that would result from reducing the number of broadcast languages would range from \$230,000 for VOA's Slovene language broadcast to \$12.7 million for both VOA and RFE/RL's Russian language broadcasts.

---

Related GAO Products

U.S. Information Agency: Options for Addressing Possible Budget Reductions (GAO/NSIAD-96-179, September 23, 1996).

International Broadcasting: Downsizing and Relocating Radio Free Europe/Radio Liberty (GAO/NSIAD-95-53, April 5, 1995).

Voice of America: Station Modernization Projects Need to Be Justified (GAO/NSIAD-94-69, January 24, 1994).

Voice of America: Management Actions Needed to Adjust to a Changing Environment (GAO/NSIAD-92-150, July 24, 1992).

---

GAO Contact

Benjamin F. Nelson, (202) 512-4128

**Option:  
Risk-Based Exposure  
Fees for  
Export-Import Bank**

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Banking and Financial Services (House)
Appropriations subcommittees	Foreign Operations (Senate) Foreign Operations, Export Financing, and Related Programs (House)
Primary agency	U.S. Export-Import Bank
Account	Export-Import Bank Program Account (83-0100)
Spending type	Discretionary
Budget subfunction	International Financial Programs
Framework theme	Redefine beneficiaries

The U.S. Export-Import Bank's (Eximbank) fees are currently lower than those charged by most foreign export credit agencies because Eximbank has interpreted its broad congressional mandate to be "fully competitive" by setting its sovereign fees as low or lower than about 75 percent of those offered by other major export credit agencies.

Decision makers will need to address several trade and foreign policy issues before making changes in Eximbank's programs. Eximbank officials said that any proposed fee increases need to be considered within the broader context of current international efforts to gradually reduce government export finance subsidies. They also stated that these options could make Eximbank programs less competitive relative to foreign export credit agencies but acknowledged that it would be difficult to determine the precise trade effects of such actions.

Using 1995 Eximbank transaction data, we estimated that the bank could have saved about \$84 million in fiscal year 1995 if it had raised its fees to a level in the mid-range of fees charged by other major export credit agencies of other nations. Any fee increases are likely to reduce demand for Eximbank financing and the savings associated with such an increase would depend on its magnitude and on other variables, such as the sensitivity of demand to the price increase as well as the risk levels, terms, and conditions of future transactions. CBO estimates that changing the fee structure accordingly could save more than \$450 million over 5 years.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	90	90	90	90	90
Outlays	10	24	36	46	56
Savings from the 1997 funding level adjusted for inflation					
Budget authority	92	95	97	100	103
Outlays	10	25	37	49	60

Source: Congressional Budget Office.

---

**Related GAO Products**

Export-Import Bank: Options for Achieving Possible Budget Reductions  
(GAO/NSIAD-97-7, December 20, 1996).

Foreign Affairs: Perspectives on Foreign Affairs Programs and Structures  
(GAO/NSIAD-97-6, November 8, 1996).

Export Finance: Comparative Analysis of U.S. and European Union Export Credit Agencies (GAO/GGD-96-1, October 24, 1995).

Export Finance: The Role of the U.S. Export-Import Bank (GAO/GGD-93-39, December 23, 1992).

---

**GAO Contact**

Benjamin F. Nelson, (202) 512-4128

## Option: Export-Import Bank Programs

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Banking and Financial Services (House)
Appropriations subcommittees	Foreign Operations (Senate) Foreign Operations, Export Financing, and Related Programs (House)
Primary agency	U.S. Export-Import Bank
Account	Export-Import Bank Loans Program Account (83-0100)
Spending type	Discretionary
Budget subfunction	International Financing Programs
Framework theme	Reassess objectives

The U.S. Export-Import Bank (Eximbank) was created to facilitate exports of U.S. goods and services by offering a wide range of financing at terms competitive with those of other governments' export financing agencies. Eximbank is to absorb risks that the private sector is unwilling or unable to assume. Higher risk markets, such as the Newly Independent States of the Former Soviet Union, constitute a relatively small share of the Eximbank's total financing commitments yet absorb a relatively large share of its subsidy costs. From fiscal year 1992 to 1996, Eximbank has used an average of \$750 million of its credit subsidy appropriation to support an average of \$13.3 billion in export financing commitments (loans, loan guarantees, and insurance). Eximbank's congressional mandate is to supplement, not compete with, private capital. Thus it provides financing in a wide variety of markets, including more markets in higher-risk categories than those of any of its major competitors.

The level and scope of the risks of the Eximbank's programs could be reduced by several means, such as placing a ceiling on the maximum subsidy rate allowed in Eximbank programs, reducing or eliminating program availability offered in high-risk markets, and offering less than 100-percent risk protection. These changes would have only a slight effect (less than 5 percent) on the overall level of U.S. exports supported with Eximbank financing. However, these options raise several trade and foreign policy issues that decisionmakers would need to address before making any changes in Eximbank's programs. Eximbank officials noted that these options could undermine U.S. government efforts to provide support in some higher-risk markets, such as the Newly Independent States of the Former Soviet Union, that exhibit promising long-term potential.

The specific level of savings resulting from these program changes would be dependent on several factors, including the willingness of exporters and participating banks to absorb increased costs and risks, and the reaction of foreign export credit agencies. We estimated, based on 1995 transaction levels, that \$157 million in program subsidy savings could be achieved annually if Eximbank provided only short-term cover in high-risk markets. The following CBO estimates are based on an increase in Eximbank transaction levels in these markets.

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	244	244	244	244	244
Outlays	27	66	97	125	150
Savings from the 1997 funding level adjusted for inflation					
Budget authority	248	255	262	269	276
Outlays	28	68	101	133	162

Source: Congressional Budget Office.

**Related GAO Products**

Export-Import Bank: Options for Achieving Possible Budget Reductions  
(GAO/NSIAD-97-7, December 20, 1996).

Foreign Affairs: Perspectives on Foreign Affairs Programs and Structures  
(GAO/NSIAD-97-6, November 8, 1996).

Export Finance: Comparative Analysis of U.S. and European Union Export Credit Agencies (GAO/GGD-96-1, October 24, 1995).

Export Finance: The Role of the U.S. Export-Import Bank (GAO/GGD-93-39, December 23, 1992).

**GAO Contact**

Benjamin F. Nelson, (202) 512-4128

---

**250 General  
Science, Space, and  
Technology**

- Space Station
- NASA's Earth Observing System Data and Information System

## Option: Space Station

Authorizing committees	Commerce, Science and Transportation (Senate) Science (House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	National Aeronautics and Space Administration
Account	Human Space Flight (80-0111)
Spending type	Discretionary
Budget subfunctions	Space Flight, Research, and Supporting Activities
Framework theme	Reassess objectives

In 13 reports and testimonies issued since 1991, GAO has expressed concerns about various aspects of the space station, including rising cost estimates that have prompted several redesigns since the project was first funded in fiscal year 1985. In 1993, the station was redesigned again and Russia was brought in as a partner. The National Aeronautics and Space Administration (NASA) believed that Russian participation would improve the station's capabilities and reduce the estimated cost to complete its assembly. Subsequently, annual funding through completion of assembly was capped at about \$2.1 billion and the total project cost was capped at \$17.4 billion.

Since 1993, GAO has reported that NASA has made some progress on the space station, but it still has considerable challenges to overcome, including lower financial reserves and significant risk related to the space shuttle's ability to support the space station's launch and assembly schedule. Most recently, in July 1996, GAO reported that the cost and schedule threats have continued. The cost threat is particularly severe over the next few years, due to the limited reserves for additional cost risks such as possible reduced Russian participation.

The Congress may wish to closely monitor NASA's efforts to manage station development to enable it to act quickly should estimated costs to complete the project increase substantially. Such actions could include acceptance of the cost increases, further reduction in the project's scope, or terminating the project. If the project were terminated, the following savings would result.

Appendix III  
Options for Deficit Reduction

Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	1,449	2,149	2,149	2,149	2,149
Outlays	947	1,884	2,136	2,148	2,149
Savings from the 1997 Defense Plan adjusted for inflation					
Budget authority	1,503	2,263	2,323	2,385	2,450
Outlays	982	1,976	2,289	2,362	2,426

Note: This estimate assumes termination costs of \$700 million.

Source: Congressional Budget Office.

Related GAO Products

Space Station: Cost Control Difficulties Continue (GAO/T-NSIAD-96-210, July 24, 1996).

Space Station: Cost Control Difficulties Continue (GAO/NSIAD-96-135, July 17, 1996).

Space Station: Declining Budgets and Tight Schedules Could Jeopardize Space Station Support (GAO/NSIAD-95-171, July 28, 1995).

Space Station: Estimated Total U.S. Funding Requirements (GAO/NSIAD-95-163, June 12, 1995).

Space Station: Plans to Expand Research Community Do Not Match Available Resources (GAO/NSIAD-94-33, November 22, 1994).

Space Station: Update on the Impact of the Expanded Russian Role (GAO/NSIAD-94-248, July 29, 1994).

Space Station: Impact of the Expanded Russian Role on Funding and Research (GAO/NSIAD-94-220, June 21, 1994).

Space Station: Information on National Security Applications and Cost (GAO/NSIAD-93-208, May 18, 1993).

Space Station: Program Instability and Cost Growth Continue Pending Redesign (GAO/NSIAD-93-187, May 18, 1993).

---

**Appendix III**  
**Options for Deficit Reduction**

---

NASA: Large Programs May Consume Increasing Share of Limited Future Budgets (GAO/NSIAD-92-278, September 4, 1992).

Space Station: Status of Financial Reserves (GAO/NSIAD-92-279, July 20, 1992).

NASA Budget: Potential Shortfalls in Funding NASA's 5-Year Plan  
(GAO/T-NSIAD-92-18, March 17, 1992).

Questions Remain on the Costs, Uses, and Risks of the Redesigned Space Station (GAO/T-NSIAD-91-26, May 1, 1991).

---

**GAO Contact**

Louis J. Rodrigues, (202) 512-4841

## Option: NASA's Earth Observing System Data and Information System

Authorizing committees	Commerce, Science and Transportation (Senate) Science (House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	National Aeronautics and Space Administration (NASA)
Account	Space, Aeronautics, and Technology (80-0110)
Spending type	Discretionary
Budget subfunctions	Multiple
Framework theme	Reassess objectives

NASA's Earth Observing System (EOS) is a comprehensive program to study global change by gathering and analyzing data about how the earth functions as a single, integrated system. About a third of the cost for EOS will go to the Earth Observing System Data and Information System (EOSDIS), which will operate EOS satellites and instruments and provide ground acquisition, processing, storage, management, and distribution of the EOS data. In addition to the EOS data, EOSDIS will incorporate and make available data from previous NASA missions, non-NASA systems, and atmosphere-, ocean-, and land-based sensors. Developing EOSDIS is a massive undertaking; its intended scope far exceeds that of any previous civilian data management system. Over its lifetime, EOSDIS could accumulate information comparable to more than 1,000 times the amount of text stored in the Library of Congress. A major objective of EOSDIS is to make this enormous quantity of data easily accessible and usable to many earth scientists.

The bulk of EOSDIS development is being carried out under a single, comprehensive contract, known as the EOSDIS Core System contract. The Core System contract was awarded to Hughes Applied Information Systems in early 1993 and will cost NASA an estimated \$930 million through 2003. Hughes is responsible for building and integrating the major elements of EOSDIS, including hardware and software to be installed at eight data centers around the country.

In March 1995, GAO observed that NASA's emphasis on large-scale development in the near term may be unwise and recommended deferring full-scale development until technology and standards have further advanced and user needs are better known. Also, in 1995, the National

---

Research Council expressed its concerns about the EOSDIS development effort and recommended a new approach to EOSDIS, which would streamline some EOSDIS functions and transfer other functions to a competitively selected federation of partners in government, academia, and the private sector. Since that time, NASA has been changing its plans for EOSDIS to try to accommodate the vision of a federation of partners recommended by the National Research Council. Given that these changes should lead to a less intensive near-term systems development effort, it is reasonable to consider reducing planned funding for EOSDIS. However, GAO has not made a determination of the exact size of the most appropriate reduction.

---

Related GAO Products

Earth Observing System: Funding Requirements for NASA's EOSDIS  
(GAO/AIMD-95-153FS, June 8, 1995).

Earth Observing System: Concentration on Near-term EOSDIS Development May Jeopardize Long-term Success (GAO/T-AIMD-95-103, March 16, 1995).

---

GAO Contact

Jack L. Brock, Jr., (202) 512-6240

---

## 270 Energy

- Clean Coal Technology Funds
- Department of Energy's National Laboratories
- Use of Carryover Balances to Offset Future Budget Needs
- Department of Energy's Overtime Costs
- Department of Energy's Cleanup Studies
- Department of Energy's Contractors' Separation Benefits Package
- Federal Exemption to Certain State Taxes for Department of Energy's Operating Contractors
- Nuclear Waste Disposal Fees
- Power Marketing Administrations Cost Recovery
- Federal Investment in Successfully Commercialized Technologies

## Option: Clean Coal Technology Funds

Authorizing committees	Energy and Natural Resources (Senate) Science (House)
Appropriations subcommittees	Interior and Related Agencies (Senate and House)
Primary agency	Department of Energy
Account	Clean Coal Technology (89-0235)
Spending type	Discretionary
Budget subfunction	Energy Supply
Framework theme	Reassess objectives

A number of clean coal technology demonstration projects are experiencing problems and difficulties in meeting cost, schedule, and performance goals. DOE has extended deadlines several times on some projects to allow their sponsors to restructure the projects, find suitable alternative project sites, and firm up financing commitments to make the projects economically viable. In April 1995, the Congress rescinded \$200 million of this program's budget authority which DOE achieved by using unobligated funds associated with projects that were subsequently terminated. DOE's fiscal year 1997 budget request proposed an additional \$325 million rescission, but the Congress only rescinded \$123 million. As of October 1996, DOE had achieved this rescission and also accumulated about \$159 million of unobligated funds in the clean coal reserve as a result of terminated projects. DOE expects additional savings ranging from about \$50 million to \$100 million or more from combining or terminating certain other ongoing projects. DOE plans to use the reserve funds to pay for program direction beginning in fiscal year 1998 through the end of the program (which DOE estimates could total about \$50 million) and to help pay for cost growth for selective ongoing projects. To the extent that the reserve funds are not used for cost growth, about \$160 million to about \$210 million in unobligated funds may be available for rescission. If the Congress chose to rescind \$160 million in budget authority, the following savings could occur.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>
Savings from the 1997 funding level					
Budget authority	160	0	0	0	0
Outlays	0	0	25	25	50
Savings from the 1997 funding level adjusted for inflation					
Budget authority	160	0	0	0	0
Outlays	0	0	25	25	50

Source: Congressional Budget Office.

---

**Related GAO Products**

Fossil Fuels: Lessons Learned in DOE's Clean Coal Technology Program  
(GAO/RCED-94-174, May 26, 1994).

Fossil Fuels: Improvements Needed in DOE's Clean Coal Technology Program  
(GAO/RCED-92-17, October 30, 1991).

---

**GAO Contact**

Victor S. Rezendes, (202) 512-3841

**Option:**  
**Department of**  
**Energy's National**  
**Laboratories**

Authorizing committees	Energy and Natural Resources (Senate) Commerce (House)
Appropriations subcommittees	Energy and Water Development (Senate and House)
Primary agency	Department of Energy
Account	Energy Supply, R&D Activities (89-0224)
Spending type	Discretionary
Budget subfunction	Atomic Energy Defense Activities
Framework theme	Reassess objectives

The Department of Energy's (DOE) laboratory network is comprised of approximately 30 labs, with a budget of about \$8 billion and employing over 25,000 scientists and engineers. Recent shifts in national priorities—principally, the dramatic reduction in the arms race and proposed cutbacks in energy and nuclear research funding—raise questions about the need for all these labs. In particular, DOE's three large defense labs, costing about \$1 billion annually, were created to design and test nuclear weapons, a role which has greatly diminished over time. Currently, these labs allocate less than half their budgets to nuclear weapons design, development, and testing—the principal reasons they were created. Yet, as GAO has reported, DOE still maintains a redundant structure with respect to nuclear weapons work, an arrangement that may no longer be the most efficient alternative for meeting defense requirements.

The 1995 Galvin Task Force, commissioned by DOE, also argued for more focused missions for the national laboratories. In addition, the task force said that the national laboratory system is oversized for its current mission assignments. Several congressional bills have been introduced in recent years calling for the creation of a separate structure for determining the best way to streamline national laboratories.

Aside from deciding on the ideal number of labs, most experts GAO consulted agree that the missions of the laboratories now need to be clarified if their resources are to be used most effectively. Some are suggesting the current laboratory structure may not be the most rational if the labs are to move into newer mission areas. Suggestions for restructuring range from converting some labs into private or quasi-public

entities, transferring labs to universities, or assigning them to different agencies whose missions better match lab strengths.

In addition to supporting DOE's efforts to streamline individual labs, the Congress should reconsider the role and mission of the laboratories as a group, which could be restructured in various ways. For example, the Galvin Task Force examined a transfer of most of the nuclear weapons functions of Lawrence Livermore to the Los Alamos laboratory. Los Alamos officials estimated that having both facilities design weapons but only one engineer and test them would eventually save about \$200 million in annual operating costs. The table below reflects savings from phasing in such a consolidation over a 5-year period.

**Five-Year Savings**

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	32	66	102	140	179
Outlays	24	58	93	131	169
Savings from the 1997 funding level adjusted for inflation					
Budget authority	33	70	110	156	205
Outlays	25	60	100	144	192

Source: Congressional Budget Office.

**Related GAO Products**

Federal R&D Laboratories (GAO/RCED/NSIAD-96-78R, February 29, 1996).

National Laboratories Need Clearer Mission and Better Management (GAO/RCED-95-10, January 27, 1995).

DOE's National Laboratories: Adopting New Missions and Managing Effectively Pose Significant Challenges (GAO/T-RCED-94-113, February 3, 1994).

Department of Energy: Management Problems Require a Long-term Commitment to Change (GAO/RCED-93-72, August 31, 1993).

---

**Appendix III**  
**Options for Deficit Reduction**

---

Nuclear Weapons Complex: Issues Surrounding Consolidating Los Alamos and Lawrence Livermore National Laboratories (GAO/RCED-92-98, September 24, 1992).

---

**GAO Contact**

Victor S. Rezendes, (202) 512-3841

## Option: Use of Carryover Balances to Offset Future Budget Needs

Authorizing committees	Armed Services (Senate) Energy and Natural Resources (Senate) National Security (House) Commerce (House)
Appropriations subcommittees	Energy and Water Development (Senate and House) Interior and Related Agencies (Senate and House)
Primary agency	Department of Energy
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple
Framework theme	Improve efficiency

Carryover balances represent funding from prior years' budgets and consist of both unobligated balances and uncosted obligations. Each fiscal year, the Department of Energy (DOE) requests obligational authority from the Congress to meet the costs of running its programs. Once DOE receives this authority, it obligates funds by placing orders or awarding contracts for goods and services that will require payment during the same fiscal year or in the future. Unobligated balances represent the portion of its authority that the Department has not obligated. Uncosted obligations represent the portion of the Department's authority that it has obligated for goods and services but for which it has not yet incurred costs. Uncosted obligations may occur because goods and services have not yet been provided or they may reflect amounts no longer needed because of cost underruns, reductions in the projects' scope, or cancellation of projects. DOE's carryover balances are distributed among operating activities, capital equipment procurement, and construction projects. At the beginning of fiscal year 1996, DOE's carryover balances totaled \$9.6 billion.

Over the past several years, GAO has audited DOE's carryover balances and found amounts that were no longer needed for their original purposes, and thus, could be used to offset future funding requirements. For example, a 1994 GAO review of two DOE program areas—Environmental Management and Defense Programs—identified over \$500 million in unneeded funds. In its most recent review, GAO found that while DOE programs need some carryover balances to pay for commitments made in prior years that have not been completed, the Department may have had as much as \$2.1 billion in operating activity and capital procurement carryover balances that were

potentially available to offset the Department's fiscal year 1997 budget request. Of this total, \$1.6 billion was contained in the Energy Research, Energy Efficiency, and Fossil Energy programs. GAO also found that the Department had \$73.5 million in funding for construction projects that was available. Future appropriations could be reduced to reflect these carryover balances.

While GAO recognizes that the \$2.1 billion in potentially available balances represents a starting point from which to identify the amount of balances that could actually be used to offset DOE's budget, the Congress may wish to consider reducing fiscal year 1998 appropriations to reflect some portion of these available funds. Based on GAO's prior work, reducing appropriations by \$500 million in fiscal year 1998 could achieve the following savings.

#### Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 Defense Plan					
Budget authority	500	0	0	0	0

Note: The budget authority reduction for this option is based on GAO's estimate. CBO does not estimate any corresponding reduction in outlays for the five-year period as the carryover balance is reduced.

Source: Congressional Budget Office.

#### Related GAO Products

DOE's Carryover Balances and Fiscal Year 1997 Budget (GAO/RCED-96-239R, September 6, 1996).

DOE Management: DOE Needs to Improve Its Analysis of Carryover Balances (GAO/RCED-96-57, April 12, 1996).

#### GAO Contact

Victor S. Rezendes, (202) 512-3841

**Option:  
Department of  
Energy's Overtime  
Costs**

Authorizing committees	Armed Services (Senate) Energy and Natural Resources (Senate) National Security (House) Commerce (House)
Appropriations subcommittees	Energy and Water Development (Senate and House) Interior and Related Agencies (Senate and House)
Primary agency	Department of Energy
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple
Framework theme	Improve efficiency

The Department of Energy's (DOE) direct overtime costs for its federal employees increased from \$15.5 million in 1989 to \$26.5 million in 1993. In 1995, overtime costs dropped to about \$21.9 million.

In the past, DOE's efforts to manage and minimize such costs have been limited. DOE has (1) incurred costs for questionable overtime work, such as driving DOE officials to the airport from their homes on weekends, (2) not fully utilized compensatory time as a less costly alternative to paid overtime, and (3) not consistently planned annual leave to minimize the use of overtime. In order to better manage overtime and minimize costs, DOE should (1) ensure that the types of work driving overtime costs are essential, (2) increase the use of compensatory time as an alternative to paid overtime, and (3) ensure that annual leave is planned to minimize the use of overtime. The Congress may wish to reduce DOE appropriations in anticipation of changes in DOE's direct overtime costs practices. The following table illustrates the savings that could be realized over 5 years if DOE reduced its overtime expenditures annually by 6 percent.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	1	3	4	5	7
Outlays	1	2	4	5	6
Savings from the 1997 funding level adjusted for inflation					
Budget authority	1	3	4	6	7
Outlays	1	2	4	5	7

Source: Congressional Budget Office.

---

**Related GAO Product**

Energy Management: Department of Energy's Efforts to Manage Overtime Costs Have Been Limited (GAO/RCED-94-282, September 27, 1994).

---

**GAO Contact**

Victor S. Rezendes, (202) 512-3841

Option:  
Department of  
Energy's Cleanup  
Studies

Authorizing committees	Armed Services (Senate) Energy and Natural Resources (Senate) National Security (House) Commerce (House)
Appropriations subcommittees	Energy and Water Development (Senate and House) Interior and Related Agencies (House)
Primary agency	Department of Energy
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple
Framework theme	Improve efficiency

The Department of Energy's (DOE) Environmental Management (EM) program oversees and directs all aspects of the agency's nuclear weapons complex cleanup. DOE has been criticized for the high cost of the program and for spending too much money studying sites, rather than cleaning them up.

Remediation activities at DOE's facilities are governed by the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of 1980, as amended, and the Resource Conservation and Recovery Act (RCRA) of 1976, as amended. These laws lay out requirements for identifying waste sites, studying the extent of their contamination and identifying possible remedies, and involving the public in making decisions about the sites. CERCLA offers three methods for determining how a waste site will be remediated: the full CERCLA process, interim remedial measures, and removal actions. Removal actions are the most abbreviated of the three processes.

Removal actions save time and money and can provide other benefits, such as quickly reducing continued risks to the environment. For example, GAO found that removal actions cost from 80 to 90 percent less than the other approaches. While DOE has a policy that encourages the greater use of removal actions, DOE has made limited use of removal actions for a variety of reasons, including requirements in interagency agreements and contracts with DOE's cleanup contractors that do not encourage the use of removal actions. GAO also found that while complete, reliable data on the number of sites where removal actions could be used is not available, many of DOE's cleanup sites share the same characteristics as the sites where removal actions have been used. For example, at DOE's Hanford

facility about 33 percent of all clean-up sites are similar to those where removal actions were used.

In fiscal year 1995, DOE spent about \$845 million on studying cleanup sites under CERCLA and/or RCRA. Assuming that 25 percent of these studies could be performed as removal actions and that cost reductions of 85 percent could be achieved for these sites, the Congress could require DOE's EM program to increase the use of removal actions and reduce DOE's budget by about \$190 million.

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	190	190	190	190	190
Outlays	143	190	190	190	190
Savings from the 1997 funding level adjusted for inflation					
Budget authority	195	200	206	211	217
Outlays	146	199	204	210	216

Source: Congressional Budget Office.

**Related GAO Product**

Nuclear Waste: Greater Use of Removal Actions Could Cut Time and Cost for Cleanups (GAO/RCED-96-124, May 23, 1996).

**GAO Contact**

Victor S. Rezendes, (202) 512-3841

Option:  
Department of  
Energy's Contractors'  
Separation Benefits  
Package

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Energy and Water Development (Senate and House)
Primary agency	Department of Energy
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple
Framework theme	Redefine beneficiaries

Since 1993, the Department of Energy (DOE) has spent nearly \$600 million to provide benefits to contractor employees separated in workforce restructuring and downsizing efforts at its facilities. About 88 percent of the costs were for enhanced retirement incentives or severance pay. Enhanced retirement programs typically added 3 years to age and service for the purpose of calculating pension benefits. Some enhanced retirement programs included an additional incentive payment. Other benefits included extended medical insurance and help with retraining, relocating, and finding new jobs for affected employees. More than half of the workforce restructuring plans provided more generous severance pay than would have normally been provided by the contractors under existing contracts, and all facilities provided other benefits not normally provided by contractors. Moreover, benefits provided under the workforce restructuring plans exceeded those that would be provided to federal employees in a reduction in force.

As DOE continues to align its contractor workforce because of its reduced defense mission and as it completes environmental cleanup efforts, it will undergo further downsizing. The Congress could take action to bring separation benefits in line with existing DOE contracts or with those benefits provided federal employees. CBO estimates such action would result in the following savings.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>
Savings from the 1997 funding level					
Budget authority	26	4	10	15	10
Outlays	26	4	10	15	10
Savings from the 1997 funding level adjusted for inflation					
Budget authority	27	4	11	17	12
Outlays	27	4	11	17	12

Source: Congressional Budget Office.

---

**Related GAO Product**

Department of Energy: Value of Benefits Paid to Separated Contractor Workforce Varied Widely (GAO/RCED-97-33, January 23, 1997).

---

**GAO Contact**

Victor S. Rezendes, (202) 512-3841

## Option: Federal Exemption to Certain State Taxes for Department of Energy's Operating Contractors

Authorizing committees	Armed Services (Senate) Energy and Natural Resources (Senate) National Security (House) Commerce (House)
Appropriations subcommittees	Energy and Water Development (Senate and House) Interior and Related Agencies (Senate and House)
Primary agency	Department of Energy
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple
Framework theme	Redefine beneficiaries

The federal government is exempt from paying certain state taxes, such as gross receipts and use taxes. However, the Department of Energy's (DOE) contractor-operated laboratories and production plants, although wholly government-owned and dedicated exclusively to government programs, are subject to such taxes. Because DOE has fully reimbursable contracts with its operating contractors, DOE is, in effect, paying these taxes. The amounts reimbursed can be significant. For example, in fiscal year 1995, the contractors at DOE's Oak Ridge and Sandia facilities were reimbursed almost \$69 million for gross receipts, sales, and/or use taxes. The Congress could take action to designate DOE operating contractors as "instrumentalities of the federal government." Such action would make the contractors immune from state taxation and thereby eliminate this expense.

### Five-Year Savings

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	90	90	90	90	90
Outlays	90	90	90	90	90
Savings from the 1997 funding level adjusted for inflation					
Budget authority	90	90	90	90	90
Outlays	90	90	90	90	90

Source: Congressional Budget Office.

---

**Appendix III**  
**Options for Deficit Reduction**

---

<b>Related GAO Product</b>	<u>Energy Management: DOE Controls Over Contractor Expenditures Need Strengthening</u> (GAO/RCED-87-166, August 28, 1987).
<b>GAO Contact</b>	Victor S. Rezendes, (202) 512-3841

---

## Option: Nuclear Waste Disposal Fees

Authorizing committees	Energy and Natural Resources (Senate) Commerce (House) Resources (House)
Primary agency	Department of Energy
Spending type	Direct
Framework theme	Improve efficiency

Utilities pay a fee to the Nuclear Waste Fund to finance the development of storage and permanent disposal facilities for high-level radioactive wastes. The amount of this fee has not changed since 1983, making the fund susceptible to future budget shortfalls. To help ensure that sufficient revenues are collected to cover increases in cost estimates caused by price inflation, the Congress should amend the Nuclear Waste Policy Act of 1982 to direct the Secretary of Energy to automatically adjust for inflation the nuclear waste disposal fee that utilities pay into the Nuclear Waste Fund. If the fee were indexed to inflation, the following additional receipts could be expected.

### Five-Year Savings

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Added receipts	16	33	51	69	88

Source: Congressional Budget Office.

### Related GAO Products

Status of Actions to Improve DOE User-Fee Assessments (GAO/RCED-92-165, June 10, 1992).

Changes Needed in DOE User-Fee Assessments (GAO/T-RCED-91-52, May 8, 1991).

Changes Needed in DOE User-Fee Assessments to Avoid Funding Shortfall (GAO/RCED-90-65, June 7, 1990).

### GAO Contact

Victor S. Rezendes, (202) 512-3841

## Option: Power Marketing Administrations Cost Recovery

Authorizing committees	Energy and Natural Resources (Senate) Resources (House)
Primary agency	Department of Energy
Spending type	Direct
Framework theme	Redefine beneficiaries

Three of the Department of Energy's (DOE) power marketing administrations (PMAS)—the Southeastern Power Administration, the Southwestern Power Administration, and the Western Area Power Administration—market primarily wholesale power in 30 states produced at large, multiple-purpose water projects. The three PMAS receive annual appropriations to cover operating and maintenance (O&M) expenses and, if applicable, the capital investment in transmission assets. Federal law requires the PMAS to repay these appropriations as well as the power-related O&M and the capital appropriations expended by the operating agencies generating the power.

GAO identified five major power-related costs that have not been fully recovered by one or more of the three PMAS through rates: (1) pensions and postretirement health benefits for current employees; (2) construction costs for some power-generating and transmission projects; (3) construction and O&M costs that have been allocated to irrigation facilities at the Pick-Sloan Program that are incomplete and infeasible; (4) costs of mitigating the environmental impact of certain water projects; and (5) certain O&M costs and interest expense payments due from the Western Area Power Administration. In some cases, the PMAS are not required to recover these costs because of legislation or DOE policy. GAO estimated that these unrecovered costs amounted to about \$83 million for fiscal year 1995 and cumulatively as much as \$1.8 billion as of September 30, 1995. GAO has also determined that financing of power-related capital projects is subsidized by the federal government and estimates that the financing subsidies were about \$200 million in fiscal year 1995. GAO estimates that the cumulative financing subsidy over the last 30 years has been several billion dollars.

The Congress and/or the Secretary of Energy may wish to consider directing the PMAS to more fully recover power-related costs or revising DOE's policy on high-interest debt repayment. For example, changes could be implemented to recover the full costs to the federal government of providing postretirement health benefits and pensions for current

employees and operating agency employees engaged in producing and marketing the power sold by the PMAS. CBO estimates that such action would result in the following savings.

Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Added receipts	16	16	17	17	18

Source: Congressional Budget Office.

Related GAO Products

Power Marketing Administrations: Cost Recovery, Financing, and Comparison to Nonfederal Utilities (GAO/AIMD-96-145, September 19, 1996).

Federal Power: Outages Reduce the Reliability of Hydroelectric Power Plants in the Southeast (GAO/T-RCED-96-180, July 25, 1996).

Federal Power: Recovery of Federal Investment in Hydropower Facilities in the Pick-Sloan Program (GAO/T-RCED-96-142, May 2, 1996).

Federal Electric Power: Operating and Financial Status of DOE's Power Marketing Administrations (GAO/RCED/AIMD-96-9FS, October 13, 1995).

GAO Contact

Victor S. Rezendes, (202) 512-3841

## Option: Federal Investment in Successfully Commercialized Technologies

Authorizing committees	Energy and Natural Resources (Senate) Science (House) Commerce (House)
Appropriations subcommittees	Energy and Water Development (Senate and House) Interior and Related Agencies (Senate and House)
Primary agency	Department of Energy
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple
Framework theme	Redefine beneficiaries

The Department of Energy (DOE) and the private sector are involved in hundreds of cost-shared projects aimed at developing a broad spectrum of cost-effective, energy-efficiency technologies that protect the environment, support the nation's economic competitiveness, and promote the increased use of oil, gas, coal, nuclear, and renewable energy resources. In June 1996, GAO reported that DOE generally does not require repayment of its investment in technologies that are successfully commercialized. GAO's review identified only four DOE programs that require industry repayment if the technologies are ultimately commercialized. The offices in which GAO focused most of its work planned to devote about \$8 billion in federal funds to cost-shared projects over their lifetime, of which about \$2.5 billion is subject to repayment.

GAO's report discussed the advantages and disadvantages of having a repayment policy and pointed out that many of the disadvantages can be mitigated by structuring a flexible repayment requirement with the disadvantages in mind. It also discussed the types of programs and projects that would be the most appropriate or suitable for repayment of the federal investment.

Because opportunities exist for substantial repayment in some of DOE's programs, requiring repayment under a flexible policy would allow the government to share in the benefits of successfully commercialized technologies that could amount to hundreds of millions of dollars. The potential for repayment can be illustrated by assuming that if only 50 percent of the \$5.5 billion planned for projects that are currently not subject to repayment lend themselves to repayment and if about 15 percent of research and development funds result in commercialized

---

technologies (which DOE officials say is about average), then about \$400 million could be repaid to the federal government. However, a 5-year savings estimate cannot be developed at this time because new repayment provisions would only apply to future technology development projects not yet negotiated with industry.

---

Related GAO Product

Energy Research: Opportunities Exist to Recover Federal Investment in Technology Development Projects (GAO/RCED-96-141, June 26, 1996).

---

GAO Contact

Victor S. Rezendes, (202) 512-3841

---

## **300 Natural Resources and Environment**

- Federal Land Policies
- Collaborative Federal Land Management Approach
- Federal Timber Sales
- Fair Market Value for Natural Resources
- Recreation Fees at Federal Sites
- Hardrock Mining Royalties
- Natural Resources Revenue Sharing
- Federal Water Policies
- Water Transfers
- Pollution Fees and Taxes
- Hazardous Waste Cleanup Cost Recovery
- Non-Time-Critical Removals in Superfund Cleanups
- Excess Funds in Superfund Contracts
- Weather Service Modernization Project

## Option: Federal Land Policies

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Energy and Natural Resources (Senate) Agriculture (House) Resources (House) Transportation and Infrastructure (House)
Primary agencies	Department of the Interior Department of Agriculture
Spending type	Direct
Framework theme	Improve efficiency

The federal government owns and manages about 650 million acres—nearly one-third of the U.S. landmass. For many years, these lands have been sold or otherwise made available for a variety of purposes to private citizens, corporations, and state and local governments. In many cases, the rate of return received by the government for the sale or use of these valuable natural resources has fallen far below reasonable market-based levels.

This option has two components: increased fees for patenting hardrock mining claims and higher fees for concessionaires operating on federal lands. Descriptions of each component follow.

### Increased Fees for Patenting Hardrock Mining Claims

The Mining Law of 1872 allows holders of economically minable claims to obtain all rights and interests to both the land and the minerals by patenting them for \$2.50 or \$5.00 an acre—an amount that approximated the fair market value for western grazing land and farmland in 1872. Over the last 124 years, the federal government has sold about 3.2 million acres of public lands, or an area about the size of Connecticut, under this patent provision. As a result, some patent holders have reaped huge profits at the government's expense. At the time of GAO's 1989 study, 265 patent applications were pending for more than 80,000 acres of public land. At just 12 of these sites, if all the land applied for was patented, the government would have received about \$16,000 for land appraised in 1988 at between \$14.4 million and \$47.1 million.

The 104th Congress considered several bills that address patenting of hardrock mining claims. Two companion bills (H.R. 1580 and S. 506) would have repealed the current congressional moratorium against new mining patents. Four other bills (H.R. 357 and its companion S. 504, as well as H.R. 721 and H.R. 3102) would have eliminated patenting of mining

claims. Under a seventh bill (S. 639), patenting would have granted the claimholder title to the mineral only.

Revising the patent fees for hardrock mining claims could take many forms (assuming the current moratorium on patenting is lifted). For example, fees could be set to recover the agency's administrative costs to process the patents, or the fees could be set to capture the fair market value of selling the land and/or the mineral resources. The amount of additional receipts from increased fees would depend on the specific proposal implemented. In any case, estimating savings is difficult because of the large variation in surface land values, the lack of essential data about the mineral resources on current claims, and the lack of multiple bidders on any claim to allow a competitive process. CBO cannot develop a 5-year estimate of additional receipts due to increased fees for patenting hardrock mining claims at this time.

---

### Higher Fees for Concessionaires Operating on Federal Lands

The federal government enters into agreements with concessionaires to provide key services in parks, forests, and other recreation areas. In 1991, GAO reported that concessionaires generated about \$1.4 billion in gross revenues and paid the government about \$35 million in concession fees—an average return to the government of about 2 percent. The Department of the Interior's follow-on report to the Vice President's National Performance Review concluded that receipts from concession franchise fees must be actively pursued by the National Park Service, estimating that substantial revenue could be generated by promoting competition, expediting contract renegotiations, and boosting the government's return.

The 104th Congress considered several bills that would reform concession policies. All of these bills were intended to increase the return to the government by limiting preferential rights of renewal, thus increasing competition. H.R. 773 and S. 309 focused only on the National Park Service and would have allowed the agency to keep increased fee revenue. H.R. 2028, which was included in the fiscal year 1996 omnibus budget reconciliation bill (H.R. 2491), would have increased fees for several land management agencies. Under H.R. 2028, fees up to a minimum amount would have been credited to the U. S. Treasury and fees above that level would have stayed within the agencies.

CBO cannot provide a savings estimate for higher fees at this time. The Park Service has recently renegotiated many of its existing agreements

---

with concessionaires. Therefore, some of the savings from this option may occur beyond the year 2002.

---

## Related GAO Products

Land Ownership	<u>Land Ownership: Information on the Acreage, Management, and Use of Federal and Other Lands</u> (GAO/RCED-96-40, March 13, 1996).
Hardrock Mining Patents	<u>Natural Resources Management Issues</u> (GAO/OCG-93-17TR, December 1992).  <u>Federal Land Management: The Mining Law of 1872 Needs Revision</u> (GAO/RCED-89-72, March 10, 1989).
Concessionaires Operating on Federal Lands	<u>Federal Lands: Concession Reform Is Needed</u> (GAO/T-RCED/GGD-96-223, July 18, 1996).  <u>NPS Projected Returns From Concessionaires</u> (GAO/RCED-96-48R, November 28, 1995).  <u>National Parks: Difficult Choices Need to Be Made About the Future of the Parks</u> (GAO/RCED-95-238, August 30, 1995).  <u>Federal Lands: Views on Reform of Recreation Concessionaires</u> (GAO/T-RCED-95-250, July 25, 1995).  <u>National Parks: Difficult Choices Need to Be Made About the Future of the Parks</u> (GAO/T-RCED-95-124, March 7, 1995).  <u>Federal Lands: Little Progress Made in Improving Oversight of Concessionaires</u> (GAO/T-RCED-93-42, May 27, 1993).  <u>Forest Service: Little Assurance That Fair Market Value Fees Are Collected From Ski Areas</u> (GAO/RCED-93-107, April 16, 1993).  <u>Federal Lands: Improvements Needed in Managing Concessionaires</u> (GAO/RCED-91-163, June 11, 1991).

---

## GAO Contact

Victor S. Rezendes, (202) 512-3841

## Option: Collaborative Federal Land Management Approach

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Energy and Natural Resources (Senate) Agriculture (House) Resources (House)
Appropriations subcommittees	Interior and Related Agencies (Senate and House)
Primary agencies	Department of the Interior Department of Agriculture
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Conservation and Land Management
Framework theme	Improve efficiency

The responsibilities of the four major federal land management agencies—the National Park Service, Bureau of Land Management (BLM), Fish and Wildlife Service within the Department of Interior, and the Forest Service within the Department of Agriculture—have grown more similar over time. Most notably, the Forest Service and BLM now provide more noncommodity uses, including recreation and protection for fish and wildlife, on their lands. In addition, managing federal lands has become more complex. Managers have to reconcile differences among a growing number of laws and regulations, and the authority for these laws is dispersed among several federal agencies and state and local agencies. These changes have coincided with two other developments—the federal government’s increased emphasis on downsizing and budgetary constraint and scientists’ increased understanding of the importance and functioning of natural systems whose boundaries may not be consistent with existing jurisdictional and administrative boundaries. Together, these changes and developments suggest a basis for reexamining the processes and structures under which the federal land management agencies currently operate.

Over the last 26 years, two basic strategies have been proposed to improve federal land management: (1) streamlining the existing structure by coordinating and integrating functions, systems, activities, programs, and field locations and (2) reorganizing the structure by combining agencies. The two strategies are not mutually exclusive and some prior proposals have encompassed both.

Over the last several years, the Forest Service and BLM have collocated some offices or shared space with other federal agencies. They have also

---

pursued other means of streamlining, sharing resources, and saving rental costs. However, no significant legislation has been enacted to streamline or reorganize federal land management agencies and the four major federal land management agencies have not, to date, developed a strategy to coordinate and integrate their functions, systems, activities, and programs.

Without a specific restructuring proposal that would eliminate certain programs or revise how the land is managed, CBO does not estimate savings due to sharing resources between the four major land management agencies. Savings would depend on the extent of a workforce restructuring and implementation proposal.

---

Related GAO Products

Federal Land Management: Streamlining and Reorganization Issues  
(GAO/T-RCED-96-209, June 27, 1996).

National Park Service: Better Management and Broader Restructuring Efforts Are Needed (GAO/T-RCED-95-101, February 9, 1995).

Forestry Functions: Unresolved Issues Affect Forest Service and BLM Organizations in Western Oregon (GAO/RCED-94-124, May 17, 1994).

Forest Service Management: Issues to Be Considered in Developing a New Stewardship Strategy (GAO/T-RCED-94-116, February 1, 1994).

---

GAO Contact

Victor S. Rezendes, (202) 512-3841

## Option: Federal Timber Sales

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Appropriation subcommittees	Interior and Related Agencies (Senate and House)
Primary agency	Department of Agriculture
Accounts	National Forest System (12-1106) National Forest Service Receipts (12-9990)
Spending type	Discretionary/Direct
Budget subfunction	Conservation and Land Management
Framework theme	Improve efficiency

The Department of Agriculture's Forest Service does not always recover all of its timber-related costs from the sale of timber. Currently, the Service receives most of its timber funding from timber sales and from appropriated funds linked primarily to timber management and harvest.

GAO estimated that in fiscal year 1990, under the most conservative definition of costs, \$35.6 million in Forest Service preparation and administration expenses went unrecovered. GAO's estimates ranged as high as \$112.2 million when all operating costs and payments to states were considered. According to the Forest Service's fiscal year 1995 Timber Sale Program Annual Report, timber sale program costs exceeded revenues by about \$195 million when payments to states are considered as costs of the program.

The escalating costs of the Forest Service's timber sale program has long been a concern of the Congress. In response to this concern, the Forest Service has taken efforts to achieve cost efficiencies and is reviewing its policy regarding below-cost timber sales. The primary objective of some timber sales is to achieve forest stewardship objectives such as forest health—generating revenues is secondary. However, notwithstanding these types of timber sales, at some forests, the costs to prepare and administer timber sales still exceed total receipts.

The Congress may wish to cease all below-cost federal timber sales. For example, all future timber sales could be eliminated in three of the Forest Service's nine regions where, on average over the last decade, cash expenditures have exceeded cash receipts. This also would reduce Forest Service outlays for timber management, reforestation, construction of

logging roads, and other program costs. CBO estimates that the following net 5-year savings in federal outlays could be achieved.

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	25	35	40	50	60
Outlays	20	30	35	45	55
Savings from the 1997 funding level adjusted for inflation					
Budget authority	25	35	40	50	60
Outlays	20	30	35	45	55

Source: Congressional Budget Office.

**Related GAO Products**

Forest Service: Observations on the Emergency Salvage Sale Program  
(GAO/T-RCED-96-38, November 29, 1995).

Forest Service: Distribution of Timber Sales Receipts Fiscal Years 1992-94  
(GAO/RCED-95-237FS, September 8, 1995).

Forest Service: Status of Efforts to Achieve Cost Efficiency  
(GAO/RCED-94-185FS, April 26, 1994).

Forest Service Management: Issues to Be Considered in Developing a New Stewardship Strategy (GAO/T-RCED-94-116, February 1, 1994).

Natural Resources Management Issues (GAO/OCG-93-17TR, December 1992).

Comments on Below-Cost Timber Bills (GAO/RCED-92-160R, April 1, 1992).

Forest Service Needs to Improve Efforts to Reduce Below-Cost Timber Sales (GAO/T-RCED-91-43, April 25, 1991).

Forest Service Needs to Improve Efforts to Protect the Government's Financial Interest and Reduce Below-Cost Timber Sales (GAO/T-RCED-91-42, April 24, 1991).

**GAO Contact**

Victor S. Rezendes, (202) 512-3841

## Option: Fair Market Value for Natural Resources

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Energy and Natural Resources (Senate) Agriculture (House) Resources (House)
Primary agencies	Department of Agriculture Department of the Interior
Spending type	Direct
Framework theme	Improve efficiency

Implementing market-based incentives and management practices may encourage more economically and environmentally sound use of federal lands and resources. The existing arrangement for use of the public domain provides subsidies to users—such as grazers, miners, and communication site lessees—that may encourage poor use of scarce resources and/or deprive the government of revenues to which it is entitled. In addition, certain non fee-related provisions of the governing laws may also encourage less than optimal use of those lands and resources. For example, currently livestock operators on Forest Service lands are required to graze livestock on their allotments or lose their permits. Removing this “use-it-or-lose-it” requirement would not only promote economically efficient use of the resources, but also improve ecological conditions on Forest Service lands since environmental groups may often outbid ranchers for the permits in order to rest the land.

Many proposals have been advanced to alter the existing arrangements to stress better use of the lands and/or increased revenue to the federal government including: implementing new user fees for a variety of uses; charging fair market value for goods and recovering costs for services; opening certain uses to competitive bidding and removing restrictions on how the land must be used; funding land management units out of net receipts; and entering into partnership arrangements with other governmental and non-governmental entities. Some of these ideas would require specific new statutory authority, while others could be implemented under current authority.

According to the Thoreau Institute, charging fair market value for all uses, including timber, grazing, recreation, and minerals and subsequently funding forests, parks, and public lands out of the net income would save taxpayers more than \$21 billion over 5 years. No more funds would be appropriated for these uses.

---

**Appendix III**  
**Options for Deficit Reduction**

---

In this report, GAO presents several specific options that illustrate how market-based incentives could be implemented. See the options "Federal Land Policies," "Federal Timber Sales," "Recreation Fees at Federal Sites," "Hardrock Mining Royalties," "Federal Water Policies," and "Water Transfers."

---

**Related GAO Product**

**Forest Service Management: Issues to Be Considered in Developing a New Stewardship Strategy** (GAO/T-RCED-94-116, February 1, 1994).

---

**GAO Contact**

Victor S. Rezendes, (202) 512-3841

## Option: Recreation Fees at Federal Sites

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Energy and Natural Resources (Senate) Agriculture (House) Resources (House) Transportation and Infrastructure (House)
Primary agencies	Department of the Interior Department of Agriculture
Spending type	Direct
Framework theme	Improve efficiency

Improved pricing of user fees at recreational sites could help defray direct costs to the government, shift the cost burden from the taxpayers to the beneficiaries of the services, and alleviate overcrowding at many sites. Entrance and user fees are charged at some sites, but the fees generally cover only a small portion of the costs for services provided to visitors. For example, in 1993, the Department of the Interior's National Park Service spent an estimated \$230 million on services for visitors but recovered only an estimated \$90 million in fees.

Interior's follow-on report to the Vice President's National Performance Review concluded that reform in the nature, level, and collection of fees in national parks could generate substantial revenues.

Fiscal year 1996 and 1997 appropriations legislation for the Park Service, as well as some other land management agencies, included language that permits these agencies to experiment with increased entrance fees at a number of locations. In addition, legislation was introduced in the 104th Congress to permanently authorize higher fees throughout the Park Service and several other land management agencies.

Requiring the Park Service to charge fees to cover direct as well as associated costs and disallowing their use for increased park spending would yield net new receipts over the fiscal year 1998 through 2002 period as shown in the following table. Any spending increases resulting from increased fees would be subject to future appropriations action.

### Five-Year Savings

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Added receipts	200	207	215	222	231

Source: Congressional Budget Office.

---

Related GAO Products

Comments on H.R. 2107 (GAO/RCED-96-189R, June 11, 1996).

National Parks: Difficult Choices Need to Be Made About the Future of the Parks (GAO/RCED-95-238, August 30, 1995).

National Parks: Difficult Choices Need to Be Made About the Future of the Parks (GAO/T-RCED-95-124, March 7, 1995).

Natural Resources Management Issues (GAO/OCG-93-17TR, December 1992).

Forest Service: Difficult Choices Face the Future of the Recreation Program (GAO/RCED-91-115, April 15, 1991).

---

GAO Contact

Victor S. Rezendes, (202) 512-3841

## Option: Hardrock Mining Royalties

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Energy and Natural Resources (Senate) Agriculture (House) Resources (House)
Primary agencies	Department of the Interior Department of Agriculture
Spending type	Direct
Framework theme	Improve efficiency

The government receives no financial compensation for hardrock minerals extracted from federal lands. In 1990, hardrock minerals worth at least \$1.2 billion were extracted from federal lands, while known, economically recoverable reserves of hardrock minerals remaining on federal lands were valued at \$64.9 billion.

The 104th Congress considered several bills that would have imposed royalties on hardrock minerals extracted from federal lands. H.R. 1580 and S. 506 would have imposed a royalty of 3 percent of the net proceeds for mines grossing at least \$500,000 annually. Two other bills (H.R. 721 and S. 504) would have imposed a royalty fee of 8 percent of the gross income. H.R. 357 and H.R. 3102 would have imposed a royalty of 8 percent of the net smelter return. Another bill, S. 639, would have assessed royalties for gold at 3 percent of the gross value, and for minerals other than gold at 2 percent of the gross value.

Assuming that the Congress adopted an 8-percent royalty on gross profits, CBO estimates that the following receipts would be gained. CBO's estimate reflects a reduction since 1990 in the expected amount of hardrock minerals produced on federal lands as a result of patenting.

### Five-Year Savings

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Added receipts	12	55	39	39	39

Source: Congressional Budget Office.

### Related GAO Products

Mineral Royalties: Royalties in the Western States and in Major Mineral-Producing Countries (GAO/RCED-93-109, March 29, 1993).

---

**Appendix III**  
**Options for Deficit Reduction**

---

Natural Resources Management Issues (GAO/OCG-93-17TR, December 1992).

Mineral Resources: Value of Hardrock Minerals Extracted From and  
Remaining on Federal Lands (GAO/RCED-92-192, August 24, 1992).

---

**GAO Contact**

Victor S. Rezendes, (202) 512-3841

## Option: Natural Resources Revenue Sharing

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Energy and Natural Resources (Senate) Agriculture (House) Resources (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Interior and Related Agencies (Senate and House) Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (House)
Primary agencies	Department of the Interior Department of Agriculture
Accounts	Multiple
Spending type	Direct
Budget subfunction	Conservation and Land Management
Framework theme	Improve efficiency

The federal government collects fees from private interests for the sale or use of natural resources on federal lands. A percentage of these fees is, under certain conditions, allocated to states and counties as an offset for tax revenues not received from the federal lands.

Federal land-managing agencies typically do not deduct the full costs of their programs from the gross receipts that the programs generate before sharing the receipts with states and counties. Sharing federal receipts on a gross, rather than a net, basis often reduces the federal government's share of the revenues.

According to CBO, changing revenue sharing from a gross-receipt to a net-receipt basis would reduce net federal outlays and produce the savings shown as follows.<sup>17</sup>

<sup>17</sup>The projected savings do not include a potential federal cost increase under the Payment in Lieu of Taxes (PILT) program. Payments under the discretionary PILT program would increase by about \$30 million per year beginning in fiscal year 1999 if net program receipts were shared and the Congress appropriated such an increase.

**Appendix III**  
**Options for Deficit Reduction**

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	180	190	195	200	205
Outlays	180	190	195	200	205
Savings from the 1997 funding level adjusted for inflation					
Budget authority	180	190	195	200	205
Outlays	180	190	195	200	205

Source: Congressional Budget Office.

**Related GAO Products**

Forest Service: Distribution of Timber Sales Receipts Fiscal Years 1992-94  
(GAO/RCED-95-237FS, September 8, 1995).

Natural Resources Management Issues (GAO/OCG-93-17TR, December 1992).

Rangeland Management: Current Formula Keeps Grazing Fees Low  
(GAO/RCED-91-185BR, June 11, 1991).

Forest Service Needs to Improve Efforts to Reduce Below-Cost Timber Sales  
(GAO/T-RCED-91-43, April 25, 1991).

Mineral Revenues: Collection and Distribution of Revenues From Acquired Lands  
(GAO/RCED-90-7, August 2, 1990).

**GAO Contact**

Victor S. Rezendes, (202) 512-3841

Option:  
Federal Water Policies

Authorizing committees	Energy and Natural Resources (Senate) Resources (House)
Primary agency	Department of the Interior
Accounts	Multiple
Spending type	Direct
Budget subfunction	Water Resources
Framework theme	Improve efficiency

This broad option has five components: increased fees for subsidized federal water to large farms, subsidized water to produce subsidized crops, repayment of water project construction costs, recovery of federal investment in hydropower facilities, and federal water subsidies. Descriptions of each of the components follow.

Subsidized Federal Water  
to Large Farms

Under the Reclamation Reform Act of 1982, as amended, some farmers have reorganized large farming operations into multiple, smaller landholdings to be eligible to receive additional federally subsidized irrigation water. The act limits to 960 the maximum number of owned or leased acres that individuals or legal entities (such as partnerships or corporations) can irrigate with federal water at rates that exclude interest on the government's investment in the irrigation component of its water resource projects. However, due to the vague definition of the term "farm," the flow of federally subsidized water to land holdings above the 960 acre-limit has not been stopped, and the federal government is not collecting revenues to which it is entitled under the act.

Subsidized Water to  
Produce Subsidized Crops

The use of federally subsidized water to produce federally subsidized crops results in the government paying double subsidies. According to the Department of the Interior, between 1976 and 1985, an average of 38 percent of the acreage served by the Bureau of Reclamation nationwide was used to produce crops that are also eligible for subsidies through the Department of Agriculture's commodity programs. Estimates of the cost of federal water subsidies vary but are substantial. The Department of the Interior estimated that irrigation subsidies used to produce subsidized crops throughout the 17 western states totaled \$203 million in 1986; the Bureau of Reclamation placed the figure at \$830 million.

---

**Time Frame for Repaying  
Water Project Construction  
Costs**

By the end of fiscal year 1990, after receiving water from the Central Valley Project (CVP) in California's Central Valley Basin for over 40 years, irrigators had repaid only \$10 million, 1 percent, of the over \$1 billion in construction costs that they owe the federal government. In 1986, the Congress required irrigators and other users to pay their share of the federal investment in the CVP by 2030. While construction costs ultimately may be recovered by 2030, the dollars that eventually flow to the Treasury could be worth much less than if they had been repaid sooner. The Congress may wish to accelerate the repayment schedule.

---

**Recovery of Federal  
Investment in Hydropower  
Facilities**

Under the current repayment criteria, approximately \$454 million of the federal investment in the Pick-Sloan Basin Program (a comprehensive plan to manage the water and hydropower resources of the Missouri River basin) is unrecoverable. A portion of Pick-Sloan's completed facilities were intended for use with irrigation facilities that have not been completed and are no longer considered feasible. In addition, as the overall federal investment in the other aspects of the completed hydropower facilities increases because of changes such as renovations and replacements, the amount of the federal investment that is unrecoverable will increase. Changing the terms of repayment to recover any of the \$454 million investment would require congressional action. Consistent with previous congressional action concerning the program, the Congress could direct the Western Area Power Administration to recover the investment through power revenues and to take action to minimize any impact on power rates.

---

**Federal Interest Subsidies  
for Irrigators**

Estimates of the current cost of federal water subsidies are substantial. For example, the Department of the Interior reported that irrigation subsidies throughout the 17 western states totaled \$534 million in 1986, while the Bureau of Reclamation placed the cost at \$2.2 billion. Estimates differ because of different definitions of an irrigation subsidy, different interest rates used to calculate the subsidies, and different methods for compounding unpaid interest. Much has changed in the West since the subsidies were established in 1902, and it is not known whether the subsidies are still warranted or whether irrigators could pay more of the cost of the water delivered.

The added receipts shown in the tables below would be achieved if the Congress collected the full cost of federally subsidized water to large farms, required CVP irrigators to repay the costs of the CVP by 2020 (roughly

**Appendix III**  
**Options for Deficit Reduction**

two-thirds the time required under current law), recovered the investment in the Pick-Sloan Basin Program, and/or phased out the interest subsidy for western irrigators.<sup>18</sup>

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Option: Increased fees for subsidized water to large farms					
Added receipts	4	8	8	8	8

Source: Congressional Budget Office.

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Option: Time frame for repaying water project construction costs					
Added receipts	0	3	8	11	11

Source: Congressional Budget Office.

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Option: Recovery of federal investment in hydropower facilities					
Added receipts	0	18	18	18	18

Source: Congressional Budget Office.

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Option: Federal interest subsidies for irrigators					
Added receipts	0	4	11	14	14

Source: Congressional Budget Office.

**Related GAO Products**

**Subsidized Federal Water to Large Farms**

**Water Subsidies: The Westhaven Trust Reinforces the Need to Change Reclamation Law** (GAO/RCED-90-198, June 5, 1990).

<sup>18</sup>Implementing some of these options would affect the potential savings from the remaining options.

---

Water Subsidies: Basic Changes Needed to Avoid Abuse of the 960-Acre Limit (GAO/RCED-90-6, October 12, 1989).

Subsidized Water to Produce  
Subsidized Crops

Natural Resources Management Issues (GAO/OCG-93-17TR, December 1992).

Reclamation Law: Changes Needed Before Water Service Contracts Are Renewed (GAO/RCED-91-175, August 22, 1991).

Time Frame for Repaying  
Water Project Construction  
Costs

Water Subsidies: Impact of Higher Irrigation Rates on Central Valley Project Farmers (GAO/RCED-94-8, April 19, 1994).

Reclamation Law: Changes Needed Before Water Service Contracts Are Renewed (GAO/RCED-91-175, August 22, 1991).

Recovery of Federal Investment  
in Hydropower Facilities

Federal Power: Recovery of Federal Investment in Hydropower Facilities in the Pick-Sloan Program (GAO/T-RCED-96-142, May 2, 1996).

Federal Interest Subsidies for  
Irrigators

Water Subsidies: Impact of Higher Irrigation Rates on Central Valley Project Farmers (GAO/RCED-94-8, April 19, 1994).

Natural Resources Management Issues (GAO/OCG-93-17TR, December 1992).

---

GAO Contact

Victor S. Rezendes, (202) 512-3841

---

**Option:**  
**Water Transfers**

---

Authorizing committees	Energy and Natural Resources (Senate) Resources (House)
Primary agency	Department of the Interior
Spending type	Direct
Framework theme	Improve efficiency

---

Water transfers, in which rights to use water are bought and sold, are a mechanism for relocating scarce water to new users by allowing those who place the highest economic value on it to purchase it. Water transfers from irrigation to municipal and industrial uses can increase federal revenues because municipal and industrial users pay rates based on their full share of the project's construction cost plus interest. In contrast, many irrigators pay only a portion of their share of the construction costs and are exempt from paying interest. However, increasing federal revenues will reduce the net benefits to the buyers and sellers, thereby discouraging some transfers. Deciding how much the Bureau of Reclamation should charge for transferred water involves balancing the increase in federal revenues with retaining incentives for water transfers to occur.

A 5-year estimate of additional receipts cannot be developed at this time. The difficulties of estimating the highest economic value of water and which users are willing to pay that value inhibit estimation.

---

**Related GAO Product**

Water Markets: Increasing Federal Revenues Through Water Transfers  
(GAO/RCED-94-164, September 21, 1994).

---

**GAO Contact**

Victor S. Rezendes, (202) 512-3841

## Option: Pollution Fees and Taxes

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Environmental Protection Agency
Spending type	Direct
Framework theme	Improve efficiency

User fees, cost reimbursement mechanisms, and pollution taxes could be designed as a way to control pollutants and harmful substances by preventing their further generation, thus supplementing regulatory efforts to meet the objectives of existing environmental laws. These mechanisms also produce significant revenues which could help defray the costs of administering environmental protection programs or ultimately reduce the budget deficit. Based on audit work, GAO has identified several specific areas where fees and taxes might be effective, including, but not limited to (1) requiring states to collect permit fees on industrial and municipal dischargers to surface waters and (2) establishing a pollution tax on dischargers, based on volume, toxicity, or both.

Based on our work, an example of a pollution fee which the Congress may wish to consider is an excise tax on toxic water pollutants. Savings below illustrate a tax on water pollution discharges whose rate increases with the toxicity of the discharge, effective on discharges of water pollutants made after December 31, 1997. Rates range from \$0.65 per pound for the least toxic pollutant to \$63.40 per pound for the most toxic pollutant. Over time, revenue from a pollution fee tax should decline since the intent of such a tax is to provide an incentive to reduce the amount of pollutants generated.

### Five-Year Revenues

Dollars in billions					
	FY98	FY99	FY00	FY01	FY02
Revenue gain	0.2	0.2	0.2	0.2	0.2

Note: JCT provided its revenue estimates in billions of dollars.

Source: Joint Committee on Taxation (JCT).

### Related GAO Products

Environmental Protection: Implications of Using Pollution Taxes to Supplement Regulation (GAO/RCED-93-13, February 17, 1993).

---

**Appendix III**  
**Options for Deficit Reduction**

---

Hazardous Waste: Much Work Remains to Accelerate Facility Cleanups  
(GAO/RCED-93-15, January 19, 1993).

Drinking Water: Widening Gap Between Needs and Available Resources  
Threatens Vital EPA Program (GAO/RCED-92-184, July 6, 1992).

Water Pollution: Stronger Efforts Needed by EPA to Control Toxic Water  
Pollution (GAO/RCED-91-154, July 19, 1991).

Environmental Protection: Meeting Public Expectations With Limited  
Resources (GAO/RCED-91-97, June 18, 1991).

---

**GAO Contact**

Peter F. Guerrero, (202) 512-6111

**Option:  
Hazardous Waste  
Cleanup Cost  
Recovery**

Authorizing committees	Environment and Public Works (Senate) Commerce (House) Transportation and Infrastructure (House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Environmental Protection Agency
Account	Hazardous Substance Superfund (20-8145)
Spending type	Discretionary
Budget subfunction	Pollution Control and Abatement
Framework theme	Improve efficiency

The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), which created the Superfund program, requires that the parties responsible for contaminating Superfund sites clean them up or reimburse the Environmental Protection Agency (EPA) for doing so. However, through 1995, EPA had reached agreements with responsible parties to recover only 14 percent of its costs. Recoveries have been low because EPA has narrowly defined which costs it will seek to recover—excluding, for example, research and development costs. As a result, the agency has foregone any opportunity to recover over \$3.8 billion in indirect costs. Moreover, CERCLA prevents EPA from charging polluters hundreds of millions of dollars in additional interest on the cost EPA incurs to clean up Superfund sites by setting an interest rate significantly lower than commercial rates and preventing the accrual of interest on costs until demand for payment is made. If EPA had been allowed to accrue interest at a commercial rate from the date funds were expended, GAO estimates that \$105 million in interest could have been accrued in 1990 on the funds EPA expended in fiscal year 1989 alone.

EPA should amend its definition of recoverable costs to permit greater recoveries. The Congress should amend CERCLA to allow EPA to recover from responsible parties more interest on the cost it incurs to clean up Superfund sites.

Savings could not be estimated due to EPA's varying success in collecting the full amount of current penalty and interest charges.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Related GAO Products**

Superfund: EPA Has Opportunities to Increase Recoveries of Costs  
(GAO/RCED-94-196, September 28, 1994).

Superfund: More Settlement Authority and EPA Cost Controls Could Increase Cost Recovery (GAO/RCED-91-144, July 18, 1991).

Superfund: A More Vigorous and Better Managed Enforcement Program Is Needed (GAO/RCED-90-22, December 14, 1989).

---

**GAO Contact**

Peter F. Guerrero, (202) 512-6111

## Option: Non-Time-Critical Removals in Superfund Cleanups

Authorizing committees	Environment and Public Works (Senate) Commerce (House) Transportation and Infrastructure (House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Environmental Protection Agency
Account	Hazardous Substance Superfund (20-8145)
Spending type	Discretionary
Budget subfunction	Pollution Abatement and Control
Framework theme	Improve efficiency

Superfund is the Environmental Protection Agency's (EPA) program for cleaning up the nation's highly contaminated hazardous waste sites, either through undertaking a cleanup action itself or compelling responsible private parties to do so. After spending more than 16 years and \$15 billion on Superfund, cleanups have been completed at only about 400 of the 1,300 sites currently on EPA's priority cleanup list.

EPA has two processes for conducting Superfund cleanups: (1) the removal process which is typically used to respond to urgent situations, and (2) the remedial process which has traditionally been used for conducting more comprehensive cleanup actions. To accelerate the cleanup of Superfund sites, EPA has begun expanding the use of its removal process to conduct substantial nonemergency cleanup actions. These Non-Time-Critical (NTC) removals result in equally protective but quicker cleanups than under the remedial process because they streamline cleanup planning. NTC removals can be used to clean up at least a portion of almost any Superfund site, particularly the highest risk portions.

In April 1996, we reported on the 81 cleanup actions that EPA had conducted under the NTC removal process. We found that compared to the remedial process, the NTC removal process accelerated cleanup actions by an average of 2 years per action and, consequently, reduced human health risks sooner and prevented the further spread of contamination. Using NTC removals also reduced the cost of the cleanup actions, from \$4.1 million to \$3.6 million, on average, for a savings of \$500,000 per action.

If NTC removals were consistently used, the backlog of contaminated sites in the Superfund program could be more quickly addressed. This would

---

reduce total costs over the life of the Superfund program but, given the current backlog, could not be expected to yield short-term savings.

---

Related GAO Products

A Superfund Tool for More Efficient Cleanups (GAO/RCED-96-134R, April 15, 1996).

Superfund: Non-Time-Critical Removals as a Tool for Faster and Less Costly Cleanups (GAO/T-RCED-96-137, April 17, 1996).

Time and Cost Limits on Superfund Removals (GAO/RCED-96-195R, June 10, 1996).

---

GAO Contact

Peter F. Guerrero, (202) 512-6111

Option:  
Excess Funds in  
Superfund Contracts

Authorizing committees	Environment and Public Works (Senate) Commerce (House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Environmental Protection Agency
Account	Hazardous Substances Superfund (20-8145)
Spending type	Discretionary
Budget subfunction	Pollution Control and Abatement
Framework theme	Improve efficiency

The Environmental Protection Agency's (EPA) Superfund program, which the Congress created in 1980, was intended to clean up those sites considered to be the most serious of the hazardous waste sites identified in the United States. EPA is authorized to compel parties responsible for causing the hazardous waste pollution to clean up the sites. If these parties cannot be found, or if a settlement with them cannot be reached, EPA can hire contractors to conduct the clean up. EPA has reported spending over \$10 billion for cleaning up nonfederal Superfund sites.

If EPA took more aggressive action in identifying and closing completed contracts under the Superfund program, excess amounts could be recovered and used for new Superfund work, obviating the need for additional appropriations to perform such work. During fiscal years 1990 through 1996, EPA obligated about \$4.4 billion dollars for Superfund contracts. As the work is performed under these contracts, the contractors are paid and EPA's obligations are liquidated. For various reasons, the amount of funds obligated for a particular contract often exceeds the amount eventually paid to the contractor. In these circumstances, the unspent funds should be deobligated and used for other Superfund activities, once the original contracts are closed.

In 1994, EPA's Office of Inspector General reported that contracts awarded under the Superfund program had balances of over \$100 million in unspent obligated funds that were no longer needed for their original purposes. In the same year, an EPA task force was established to develop guidance on and pursue the recovery of excess funds. However, in May 1996 we reported that substantial amounts remained obligated for completed projects. Using EPA data systems, we identified \$164 million in potential recoveries, and we encouraged EPA to aggressively pursue these

---

**Appendix III**  
**Options for Deficit Reduction**

---

recoveries. EPA's failure to take aggressive actions in identifying and closing completed contracts in the past has contributed greatly to its failure to recover unneeded funds. For example, in some cases, contracts had not been closed when work had been completed many years ago.

Our current work, which will be completed by May 1997, indicates that similar excess funds could be available during fiscal year 1998. Accordingly, in considering EPA's fiscal year 1998 budget request, the Congress may wish to consider reducing EPA's budget to encourage the agency to aggressively seek recovery of such funds. For example, the Congress may want to reduce EPA's fiscal year 1998 appropriation by \$164 million to encourage greater recovery of funds.

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	164	0	0	0	0
Outlays	41	57	33	16	8
Savings from the 1997 funding level adjusted for inflation					
Budget authority	164	0	0	0	0
Outlays	41	57	33	16	8

Source: Congressional Budget Office.

---

**Related GAO Product**

Environmental Protection: Selected Issues Related to EPA's Fiscal Year 1997 Appropriation (GAO/T-RCED-96-164, May 1, 1996).

---

**GAO Contact**

Peter F. Guerrero, (202) 512-6111

Option:  
Weather Service  
Modernization Project

Authorizing committees	Commerce, Science, and Transportation (Senate) Science (House)
Appropriations subcommittees	Commerce, Justice, State, and the Judiciary (Senate) Commerce, Justice, State, the Judiciary, and Related Agencies (House)
Primary agency	Department of Commerce
Account	Operations, Research and Facilities (13-1450)
Spending type	Discretionary
Budget subfunction	Other Natural Resources
Framework theme	Reassess objectives

The National Weather Service (NWS) uses a variety of systems and manual processes to collect, process, and disseminate weather data to and among its network of field offices and regional and national centers. Many of these systems and processes are outdated, and during the 1980s, NWS began modernizing its systems. NWS' current modernization project includes four new major system development programs including the Advanced Weather Interactive Processing System (AWIPS). AWIPS is designed to integrate for the first time satellite, radar, and other data to support weather forecaster decision-making and communications. NWS estimates that the AWIPS workstations and network will cost \$525 million and be fully deployed in 1999.

GAO reports and testimony note that NWS has not demonstrated that all AWIPS capabilities will result in the promised mission improvements, such as better forecasts, fewer field offices, and reduced staffing levels. Therefore, GAO recommended that NWS (1) expand ongoing AWIPS requirements review activities to include validation that proposed capabilities are justified on the basis of mission impact and (2) implement only those capabilities that are validated. NWS disagreed with this recommendation stating that completed and ongoing requirements reviews and risk reduction activities as well as operational test and evaluation of each AWIPS software release are sufficient to ensure that unneeded AWIPS capabilities are revised or not implemented. However, GAO believes that none of the NWS-cited activities were or are intended to demonstrate the mission impact of AWIPS capabilities.

---

Recently, the Congress, in conference report language accompanying the National Oceanic and Atmospheric Administration's 1997 appropriations bill, placed a cap of \$525 million on AWIPS and recommended that the Commerce Department delay a decision to deploy AWIPS nationwide until it conducts more operational testing. Unless NWS validates AWIPS capabilities to measurable mission improvements, it runs the risk of wasting taxpayers' money. Savings could potentially be achieved depending on the outcome of the capabilities validation.

---

Related GAO Products

Weather Forecasting: Recommendations to Address New Weather Processing System Development Risks (GAO/AIMD-96-74, May 13, 1996).

Weather Forecasting: NWS Has Not Demonstrated That New Processing System Will Improve Mission Effectiveness (GAO/AIMD-96-29, February 29, 1996).

Weather Forecasting: New Processing System Faces Uncertainties and Risks (GAO/T-AIMD-96-47, February 29, 1996).

Weather Forecasting: Radars Far Superior to Predecessors, but Location and Availability Questions Remain (GAO/T-AIMD-96-2, October 17, 1995).

Weather Service Modernization Staffing (GAO/AIMD-95-239R, September 26, 1995).

Weather Forecasting: Radar Availability Requirements Not Being Met (GAO/AIMD-95-132, May 31, 1995).

Weather Forecasting: Unmet Needs and Unknown Costs Warrant Reassessment of Observing System Plans (GAO/AIMD-95-81, April 21, 1995).

Weather Service Modernization Questions (GAO/AIMD-95-106R, March 10, 1995).

Weather Service Modernization: Despite Progress, Significant Problems and Risks Remain (GAO/T-AIMD-95-87, February 21, 1995).

Weather Forecasting: Improvements Needed in Laboratory Software Development Processes (GAO/AIMD-95-24, December 14, 1994).

---

**Appendix III**  
**Options for Deficit Reduction**

---

Weather Forecasting: Systems Architecture Needed for National Weather Service Modernization (GAO/AIMD-94-28, March 11, 1994).

Weather Forecasting: Important Issues on Automated Weather Processing System Need Resolution (GAO/IMTEC-93-12BR, January 6, 1993).

---

**GAO Contact**

Joel C. Willemssen, (202) 512-6253

---

## **350 Agriculture**

- Food Aid: Public Law 480 Title I Program
- The Market Access Program
- Export Credit Guarantee Programs
- Agricultural Research Service Funding
- USDA Telecommunications and Information Systems

Option:  
Food Aid: Public  
Law 480 Title I  
Program

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Commerce, Science and Transportation (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (House)
Primary agency	Department of Agriculture
Accounts	P.L. 480 Grants (12-2278) P.L. 480 Program (12-2277)
Spending type	Discretionary/Direct
Budget subfunction	Farm Income Stabilization
Framework theme	Reassess objectives

Through the Public Law 480 Title I Food Aid Program, U.S. agricultural commodities are sold to developing countries on long-term credit at below-market interest rates. The current goal of the program is to promote the foreign policy of the United States by enhancing the food security of developing countries. The Public Law 480 legislation specifies ways that agricultural commodities provided under the program can support this goal, including their use to promote broad-based, sustainable (BBS) development, and develop and expand markets for U.S. agricultural commodities.

Title I's contribution to BBS development and long-term market development for U.S. agricultural goods is limited for many reasons. The value of foreign exchange a country might save through purchasing Title I commodities on concessional terms—the vehicle through which BBS development could occur—is small relative to the country's development needs. Also, the program provides the Department of Agriculture (USDA) little leverage to influence development activities or initiate policy reforms in the recipient country. Further, other competing objectives dilute whatever leverage might be associated with the program.

Title I's contribution to long-term, foreign market development for U.S. agricultural commodities has not been demonstrated. Title I commodities tend to be price sensitive; therefore, it is difficult to transform the concessional market share established through the Title I program into

commercial market share, unless the United States can offer competitive prices and financing.

In addition, legislatively mandated program requirements (particularly cargo preference rules and reexport restrictions) impose constraints on recipients that undermine market development efforts.

Title II of the Federal Agriculture Improvement and Reform (FAIR) Act of 1996 amended the Title I program to provide greater program flexibility, make improvements in operations and administration, and extend authority to enter into new agreements through 2002. Notably, the FAIR Act (1) authorized agreements with private entities in addition to foreign governments, (2) eliminated the minimum repayment period of 10 years for Title I concessional credits and reduced the maximum grace period from 7 to 5 years, (3) permitted an agricultural trade organization to carry out a project or program in a developing country using funds derived from Title I sales if the organization has a market development plan approved by the Secretary of Agriculture, and (4) simplified the process by which the Secretary determines the commodities eligible for the program.

Despite these reforms, and the management streamlining required in 1990 amendments to the Title I program, multiple and sometimes competing objectives, as well as contradictory program requirements, continue to encumber the Title I program, making it difficult to create and implement an effective program strategy. Furthermore, the reforms did not address primary concerns regarding the program's level of effectiveness in developing long-term foreign markets and achieving economic development. Thus, from this perspective, the Congress may wish to consider reducing or eliminating funding for the Title I program. The savings presented below assume that the program authority would not be extended beyond fiscal year 1998.<sup>19</sup> The delay would permit USDA to lower production through an increased acreage set-aside in 1998 which would not build surpluses or otherwise affect the budget.

---

<sup>19</sup>The savings include \$14 million for ocean freight differential costs for the shipment of agricultural commodities.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	0	200	200	200	200
Outlays	0	110	190	200	200
Savings from the 1997 funding level adjusted for inflation					
Budget authority	0	210	216	221	227
Outlays	0	116	203	219	224

Source: Congressional Budget Office.

---

**Related GAO Products**

Farm Bill Export Options (GAO/GGD-96-39R, December 15, 1995).

Food Aid: Competing Goals and Requirements Hinder Title I Program Results (GAO/GGD-95-68, June 26, 1995).

Cargo Preference Requirements: Objectives Not Significantly Advanced When Used in U.S. Food Aid Programs (GAO/GGD-94-215, September 29, 1994).

Public Law 480 Title I: Economic and Market Development Objectives Not Met (GAO/T-GGD-94-191, August 3, 1994).

---

**GAO Contact**

Benjamin F. Nelson, (202) 512-4128

## Option: The Market Access Program

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Primary agency	Department of Agriculture
Accounts	Commodity Credit Corporation Fund (12-4336)
Spending type	Direct
Budget subfunction	Farm Income Stabilization
Framework theme	Redefine beneficiaries

Under the Agriculture Trade Title (Title II) of the Federal Agriculture Improvement and Reform (FAIR) Act of 1996, the Congress changed the name of the Market Promotion Program to the Market Access Program. The Market Access Program is an export promotion program that subsidizes overseas promotional activities for U.S. agricultural products. The program uses government funds to help U.S. producers, exporters, and trade associations finance cost-share promotional activities for U.S. agricultural products abroad. The Foreign Agricultural Service (FAS) operates the Market Access Program through 65 not-for-profit associations that either run the programs themselves or pass funds through to other entities.

Adequate assurance does not exist to demonstrate that Market Access Program funds are supporting additional promotional activities rather than simply replacing company/industry funds. Moreover, FAS has not provided adequate guidance or oversight in targeting Market Access Program funds to smaller and new-to-export industries which are less likely to supplant them.

Under Title II of the FAIR Act, the Congress cut annual program funding from \$110 million to \$90 million for fiscal years 1996 through 2002. The legislation also prohibits program funding for direct assistance of branded promotions from being provided to foreign companies for promotion of foreign produced products or to companies that are not recognized as small business concerns under the Small Business Act, with the exception of cooperatives and nonprofit trade associations.

Based on the examinations of the program since its inception, members of Congress have asked GAO to continue monitoring this program to ensure that executive and legislative branch reforms are effectively and efficiently implemented, particularly those pertaining to funding additionality,

graduation of private companies out of the program, and greater small company participation. Because questions have been raised as to whether continued substantial funding of large cooperatives is consistent with the intent of the program, further program funding reductions might be considered. In addition, based on graduation criteria effective in fiscal year 1999, some companies may no longer be eligible for subsidies. This could facilitate the reduction of program funding levels. For example, if the Congress were to reduce the annual program funding to \$50 million for fiscal years 1998 through 2002, the following savings could be achieved.

#### Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level adjusted for inflation					
Budget authority	40	40	40	40	40
Outlays	3	31	40	40	40

Source: Congressional Budget Office.

#### Related GAO Products

Agricultural Trade: Competitor Countries Foreign Market Development Programs (GAO/T-GGD-95-184, June 14, 1995).

Farm Bill Export Options (GAO/GGD-96-39R, December 15, 1995).

International Trade: Changes Needed to Improve Effectiveness of the Market Promotion Program (GAO/GGD-93-125, July 7, 1993).

U.S. Department of Agriculture: Improvements Needed in Market Promotion Program (GAO/T-GGD-93-17, March 25, 1993).

#### GAO Contact

Benjamin F. Nelson, (202) 512-4128

## Option: Export Credit Guarantee Programs

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Primary agency	Department of Agriculture
Accounts	Commodity Credit Corporation Loans Program Account (12-1336) Commodity Credit Corporation Fund (12-4336)
Spending type	Direct
Budget subfunction	Farm Income Stabilization
Framework theme	Reassess objectives

Under the U.S. Department of Agriculture (USDA), the Export Credit and Intermediate Export Credit Guarantee Programs are major agricultural export promotion programs. The main objective of these programs is to increase U.S. agricultural exports. Based on legislative requirements, USDA is required to make a total of \$5.5 billion in government loan guarantees available each year to foreign country buyers of U.S. agricultural commodities.

Since the programs began in the 1980s, and as of January 1997, the government had paid out approximately \$7.8 billion in claims because of loan repayment defaults and reschedulings by foreign country buyers. Past operations of the programs have incurred high costs because USDA had provided a large amount of guarantees to high-risk countries, such as Iraq and the former Soviet Union. Guarantees had been extended to such high-risk countries for market development reasons and foreign policy considerations. Extending guarantees and increasing exposure to new and existing high-risk participants will result in higher program costs.

The Agriculture Trade Provisions (Title II) of the Federal Agriculture Improvement and Reform Act of 1996 reformed the operations of the Export Credit Guarantee Programs. Notably, the Act: (1) authorized short-term supplier credit guarantees; (2) listed criteria to be used by the Secretary of Agriculture in deciding whether a country is creditworthy for intermediate-term credit guarantees; (3) mandated annual program levels at \$5.5 billion through 2002 but allowed for flexibility in how much is provided for each program; (4) clarified that the 1 percent maximum origination fee is to be applied to the amount of short-term credit to be guaranteed and removed the cap on the origination fee charged for Commodity Credit Corporation Facilities Financing Guarantees; and (5) permitted the use of credit guarantees for high-value products with at

least 90 percent U.S. content by weight. Minimum amounts of credit guarantees will be required to be available for processed and high-value products: 25 percent in 1996 and 1997; 30 percent in 1998 and 1999; and 35 percent thereafter. Minimum requirements are not applicable if they cause a reduction in total commodity sales under the program.

It is unclear that the export credit guarantee programs have resulted in increased agricultural exports. Also, there is a history of poor management control of these programs, principally because USDA officials viewed the export credit guarantee programs as "commercial" programs that are subject to the normal controls that exist for commercial sales transactions. USDA is taking steps to improve program management.

The Congress may wish to reduce the programs' budgets. For example, reducing guarantees for sales to high-risk countries would permit reductions in annual loan guarantees to about \$3 billion, about \$800 million less than current levels assumed in CBO's baseline. The Congress may also wish to consider whether such beneficiary countries might be more appropriately assisted with food aid programs. However, this would offset some or all of the savings cited in the following table.

#### Five-Year Savings

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level adjusted for inflation					
Budget authority	108	143	147	154	159
Outlays	108	143	147	154	159

Source: Congressional Budget Office.

#### Related GAO Products

Farm Bill Export Options (GAO/GGD-96-39R, December 15, 1995).

Former Soviet Union: Creditworthiness of Successor States and U.S. Export Credit Guarantees (GAO/GGD-95-60, February 24, 1995).

GSM Export Credit Guarantees (GAO/GGD-94-211R, September 29, 1994).

U.S. Department of Agriculture: Issues Related to the Export Credit Guarantee Programs (GAO/T-GGD-93-28, May 6, 1993).

---

**Appendix III**  
**Options for Deficit Reduction**

---

Loan Guarantees: Export Credit Guarantee Programs' Costs Are High  
(GAO/GGD-93-45, December 22, 1992).

---

**GAO Contact**

**Benjamin F. Nelson, (202) 512-4128**

## Option: Agricultural Research Service Funding

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (House)
Primary agency	Department of Agriculture
Account	Agricultural Research Service (12-1400)
Spending type	Discretionary
Budget subfunction	Agricultural Research and Services
Framework theme	Reassess objectives

The U.S. agricultural research system is decentralized and diverse, spanning federal, state, and private institutions. The Agricultural Research Service (ARS), which was appropriated about \$717 million for its fiscal year 1997 research activities, conducts most federal in-house agricultural research in laboratories located nationwide and in several foreign countries. ARS' role is to develop the knowledge essential to solving technical agricultural problems that are broad in scope and have high national priority.

In June 1996, GAO provided information on ARS' fiscal year 1996 research projects that the Congress could use if it chose to reduce ARS funding. As of January 29, 1996, ARS had used about 91 percent of its fiscal year 1996 research appropriations to fund 1,198 projects at an estimated cost of \$648 million. Of the projects, 495 (valued at \$257 million) involved mostly nonbasic research.<sup>20</sup> Similarly, 432 projects (valued at \$220 million) were outside the high-priority research areas designated in ARS' 6-year implementation plan. GAO identified 148 projects valued at \$78 million which fell into both of these categories.

Should the Congress wish to reduce nonbasic federal agricultural research and/or research that is not high-priority, we believe the ARS budget could sustain a commensurate reduction. For example, the Congress could eliminate the 148 projects which involved mostly nonbasic research and were outside high-priority research areas.

<sup>20</sup>Nonbasic research is applied and developmental research, which produces knowledge relevant to a technology or service and is generally completed in a few years. In contrast, basic research creates new knowledge and may take years to complete.

**Appendix III**  
**Options for Deficit Reduction**

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	78	78	78	78	78
Outlays	61	73	78	78	78
Savings from the 1997 funding level adjusted for inflation					
Budget authority	81	83	86	89	92
Outlays	63	78	85	88	91

Source: Congressional Budget Office.

**Related GAO Products**

ARS' Research Activities (GAO/RCED-96-153R, June 14, 1996).

Agricultural Research: Information on Research System and USDA's Priority Setting (GAO/RCED-96-92, March 28, 1996).

**GAO Contact**

Robert A. Robinson, (202) 512-5138

Option:  
USDA  
Telecommunications  
and Information  
Systems

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (House)
Primary agency	Department of Agriculture
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Multiple
Framework theme	Improve efficiency

The U.S. Department of Agriculture (USDA) and its 29 component agencies spend over \$100 million on telecommunications annually, including more than \$50 million for commercial telecommunications services obtained from over 1,500 telephone companies.

We have reported that USDA does not cost-effectively manage and plan its telecommunications resources. USDA agencies are spending hundreds of millions of dollars continuing to develop their own telecommunications networks that overlap and perpetuate long-standing information sharing problems. We also found that USDA agencies waste millions of dollars each year paying for (1) unnecessary telecommunications services, (2) leased equipment that is not used and services billed for but never provided, and (3) commercial carrier services that cost more than 3 times what they would under the Federal Telecommunications System 2000 program. In addition, USDA pays tens of thousands of dollars each month for collect and long-distance calls without knowing whether such calls are appropriate. We found that about 50 percent of all collect calls accepted by USDA officials in the Washington, D.C., metropolitan area over a 4-month period were from callers at correctional institutions. We also found that USDA wasted tens of thousands of dollars because it had not established adequate procedures for reviewing bills to verify the appropriateness of telephone charges made by private vendors.

Although the full extent of USDA's telephone fraud, waste, and abuse problem is unknown, USDA officials have indicated that as much as \$15 million to \$30 million could be saved annually by eliminating redundant commercial telecommunications services and by sharing

resources. If our recommendations to the Secretary to take aggressive action to improve USDA's management of telecommunications and information systems were fully implemented, we believe substantial savings could be achieved. However, the amount of such savings cannot be known with certainty until USDA takes action to fully identify and eliminate spending on fraudulent and wasteful telecommunications services.

---

**Related GAO Products**

USDA Telecommunications: More Effort Needed to Address Telephone Abuse and Fraud (GAO/AIMD-96-59, April 16, 1996).

USDA Telecommunications: Better Management and Network Planning Could Save Millions (GAO/AIMD-95-203, September 22, 1995).

USDA Telecommunications (GAO/AIMD-95-219R, September 5, 1995).

USDA Telecommunications: Missed Opportunities to Save Millions (GAO/AIMD-95-97, April 24, 1995).

---

**GAO Contact**

Joel C. Willemsen, (202) 512-6253

---

## **370 Commerce and Housing Credit**

- Rural Housing Loans Interest Recapture
- Use of Sampling for the 2000 Decennial Census

## Option: Rural Housing Loans Interest Recapture

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Banking and Financial Services (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (House)
Primary agency	Department of Agriculture
Account	Rural Housing Insurance Fund (12-2081)
Spending type	Direct
Budget subfunction	Mortgage Credit
Framework theme	Redefine beneficiaries

The Housing Act of 1949, as amended, requires the U.S. Department of Agriculture's Rural Housing Service (RHS) to recapture a portion of the subsidy provided over the life of direct housing loans it makes when the borrower sells or vacates a property. The rationale being that because taxpayers paid a portion of the mortgage, they are entitled to a portion of the property's appreciation.

In a recent report, we pointed out that because recapture is not mandated when homes are refinanced, RHS' policy allows borrowers who pay off direct RHS loans but continue to occupy the properties to defer the payments for recapturing the subsidies. As of June 30, 1995, RHS' records showed that about \$119 million was owed by borrowers who had refinanced their mortgages but continue to occupy the properties. RHS does not charge interest on the amounts owed by these borrowers.

Legislative changes could be made to allow RHS to charge market rate interest on recapture amounts owed by borrowers to help recoup the government's administrative and borrowing costs. CBO's estimate of the savings for this option is presented on a net present value basis as required by the Federal Credit Reform Act of 1990. Actual savings could differ depending on how this proposal would affect the rate at which homes are sold.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>
Budget authority	50	0	0	0	0
Outlays	50	0	0	0	0

Source: Congressional Budget Office.

---

**Related GAO Product**

**Rural Housing Programs: Opportunities Exist for Cost Savings and Management Improvement** (GAO/RCED-96-11, November 16, 1995).

---

**GAO Contact**

Judy A. England-Joseph, (202) 512-7631

## Option: Use of Sampling for the 2000 Decennial Census

Authorizing committees	Governmental Affairs (Senate) Government Reform and Oversight (House)
Appropriations subcommittees	Commerce, Justice, State, and the Judiciary and Related Agencies (Senate and House)
Primary agency	Department of Commerce
Account	Periodic Censuses and Programs (13-0450)
Spending type	Discretionary
Budget subfunction	Other Advancement of Commerce
Framework theme	Improve efficiency

Since 1992, GAO reports and testimonies have identified opportunities to reduce the cost of the 2000 Decennial Census without decreasing accuracy. The Census Bureau estimated that using the 1990 census-taking approach without modification could cost about \$4.8 billion in current dollars for the 2000 Decennial Census.

GAO believes the Census Bureau should pursue several cost-saving options currently being evaluated by the Bureau. Census Bureau estimates suggest that the use of these options could result in savings for the 2000 Decennial Census. These options are as follows:

- Promoting a higher mail response rate by simplifying and streamlining the census questionnaire and using a strategy of multiple mail contacts. A simplified, more user-friendly questionnaire could promote better response rates by reducing the time and effort needed for respondents to understand and complete the form. Additionally, tests have shown that the use of multiple contacts, such as targeted reminder cards and second mailings, improves response rates.
- Using the Postal Service to identify vacant and invalid addresses during the mailing of questionnaires to avoid costly and unnecessary follow-up efforts. In order to maximize savings, the Census Bureau must ascertain the earliest point at which vacant and invalid housing units are accurately classified to eliminate futile follow-up on them.
- Gathering data on only a sample of those households not responding by mail, rather than attempting to contact them all in person. Savings estimates would vary according to the initial percentage of households responding by mail and the sampling rate and method selected.

The Census Bureau estimates that it could have saved between \$700 million and \$800 million of the \$2.6 billion that it spent on the 1990 Decennial Census if it had incorporated the procedures listed above. Almost all of these savings would have occurred in fiscal year 1990. With inflation and workload adjustments, this figure should be somewhat higher for fiscal year 2000.

In addition, by eliminating or reducing costly labor-intensive address list operations through greater reliance on the Postal Service and local communities, the Census Bureau estimates that it could save as much as \$188 million for the 2000 Census. This cooperative effort will be permissible under 1994 legislation (P.L. 103-430). To realize these savings, the Census Bureau estimated in 1995 that it would incur costs of about \$5.1 million in fiscal years 1995, 1996, and 1997. However, thereafter, the Bureau will generate net savings of \$13.5 million in fiscal year 1998, between \$129.4 million and \$179.4 million in fiscal year 1999, and another \$10.8 million in fiscal year 2000.

The dollar amounts above are Census Bureau estimates. The Census Bureau will have to spend several million each year to prepare for the change. However, the Census Bureau should require less in budget authority to accomplish the 2000 Decennial Census than it would without implementing this proposal. Because of the unique nature of the census, a cyclical program with the majority of spending occurring once every 10 years, estimates against an interim year baseline would be inappropriate.

To illustrate the potential savings, CBO estimates that using sampling for nonresponse follow-up for the 2000 Decennial Census could result in the following savings.

#### Five-Year Savings

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Budget authority	0	0	500	0	0
Outlays	0	0	395	105	0

Source: Congressional Budget Office.

#### Related GAO Products

Decennial Census: Fundamental Design Decisions Merit Congressional Attention (GAO/T-GGD-96-37, October 25, 1995).

---

Decennial Census: 1995 Test Census Presents Opportunities to Evaluate New Census-Taking Methods (GAO/T-GGD-94-136, September 27, 1994).

Decennial Census: Promising Proposals, Some Progress, but Challenges Remain (GAO/T-GGD-94-80, January 26, 1994).

Decennial Census: Test Design Proposals Are Promising, but Fundamental Reform Is Still at Risk (GAO/T-GGD-94-12, October 7, 1993).

Decennial Census: Focused Action Needed Soon to Achieve Fundamental Breakthroughs (GAO/T-GGD-93-32, May 27, 1993).

Decennial Census: Fundamental Reform Jeopardized by Lack of Progress (GAO/T-GGD-93-6, March 2, 1993).

Transition Series: Commerce Issues (GAO/OCG-93-12TR, December 1992).

Decennial Census: 1990 Results Show Need for Fundamental Reform (GAO/GGD-92-94, June 9, 1992).

---

GAO Contact

L. Nye Stevens, (202) 512-7824

---

## 400 Transportation

- State Share of State-Supported Intercity Rail Passenger Service
- Amtrak Subsidies
- Military Airport Program Funds
- Cargo Preference Laws
- Fees Paid by Foreign-Flagged Cruise Ships
- Department of Transportation's Oversight of Its University Research
- Fees for Certification of New Airlines
- Fees for Registering Aircraft

## Option: State Share of State-Supported Intercity Rail Passenger Service

Authorizing committees	Commerce, Science, and Transportation (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Transportation (Senate) Transportation and Related Agencies (House)
Primary agency	Department of Transportation
Account	Grants to National Railroad Passenger Corporation (69-0704)
Spending type	Discretionary
Budget subfunction	Ground Transportation
Framework theme	Redefine beneficiaries

Section 403(b) of the Rail Passenger Service Act authorizes Amtrak to initiate and/or operate intercity rail services, in addition to its basic system, when such services are financially supported by the states. As of January 1996, Amtrak had contracts with 11 states to operate such service over 15 routes.<sup>21</sup> These operations account for about 15 percent of Amtrak's ridership. Under the provisions of the Rail Passenger Service Act, the states contribute at least 45 percent of section 403(b) service operating losses in the first year of operation and 65 percent of these losses in subsequent years. For service that began prior to 1989, states reimburse Amtrak for short-term avoidable losses, while for service that began after 1989, states reimburse Amtrak for long-term avoidable losses. Although long-term avoidable losses are a larger amount than short-term avoidable losses, they are only about 55 percent of losses that are based on fully allocated costs—including capital costs. The states do pay 50 percent of the capital equipment costs (primarily depreciation and interest) associated with section 403(b) service.

In fiscal year 1994, Amtrak sustained about \$82.2 million in losses on section 403(b) services and this increased to \$88.2 million in fiscal year 1995. The states receiving section 403(b) services contributed \$32.6 million in 1994 and \$35.7 million in 1995. These amounts are consistent with Amtrak's experience in recent years. However, Amtrak is planning to substantially increase the share of section 403(b) service losses that the individual states will bear. In fiscal year 1996, Amtrak planned to collect \$72.6 million in state contributions to cover section 403(b) losses.

<sup>21</sup>These states were Alabama, California, Illinois, Michigan, Missouri, New York, North Carolina, Wisconsin, Oregon, Washington, and Vermont.

However, it actually collected \$64.2 million. Amtrak plans to eventually recover the fully allocated losses from section 403(b) services, but has not yet secured the states' agreement.

The Congress could require that the states reimburse Amtrak for the fully allocated costs of providing section 403(b) services. While this is Amtrak's goal, supporting legislation would pave the way for fully allocated loss reimbursement. Currently, Amtrak must negotiate reimbursement with each state and the state contributions vary widely. On the basis of Amtrak's experience in recent years (as opposed to its plan for the current year), the following savings would apply if federal subsidies were reduced by the estimated 403(b) losses that Amtrak now must absorb.

**Five-Year Savings**

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	46	46	46	46	46
Outlays	46	46	46	46	46
Savings from the 1997 funding level adjusted for inflation					
Budget authority	47	48	50	51	52
Outlays	47	48	50	51	52

Source: Congressional Budget Office.

**Related GAO Products**

Amtrak's Strategic Business Plan: Progress to Date (GAO/RCED-96-187, July 24, 1996).

Northeast Rail Corridor: Information on Users, Funding Sources, and Expenditures (GAO/RCED-96-144, June 27, 1996).

Intercity Passenger Rail: Amtrak's Financial and Operating Conditions Threaten Its Longterm Viability (GAO/RCED-95-71, February 6, 1995).

**GAO Contact**

John H. Anderson, Jr., (202) 512-2837

## Option: Amtrak Subsidies

Authorizing committees	Commerce, Science, and Transportation (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Transportation (Senate) Transportation and Related Agencies (House)
Primary agency	Department of Transportation
Account	Grants to National Railroad Passenger Corporation (69-0704)
Spending type	Discretionary
Budget subfunction	Ground Transportation
Framework theme	Reassess objectives

Amtrak's financial condition has deteriorated rapidly in the first half of the decade, seriously threatening Amtrak's ability to provide high-quality passenger rail service nationwide. The time has come for Amtrak and the federal government to make key long-term decisions concerning the quality and extent of passenger rail service and the government's commitment to subsidize such operations. Recognizing Amtrak's need for financial support, the Congress has provided significant funding since Amtrak began operating in 1971. Since 1990, however, Amtrak's federal subsidy has not covered the gap between operating expenses and revenues. Total operating deficits had exceeded federal operating subsidies by \$175 million. This imbalance occurred because passenger revenues have been lower than projected while expenses have been higher than expected. Furthermore, between 1990 and 1994, Amtrak steadily reduced its working capital by \$254 million. Although Amtrak's working capital position improved in fiscal year 1995, current liabilities still exceeded current assets by \$149 million.

Over the next few years, Amtrak will face difficult and costly challenges that could impede its financial recovery. At the same time, Amtrak faces few opportunities to substantially increase revenues. The challenges include (1) maintaining its aging passenger cars, (2) modernizing the Beech Grove, Indiana, repair facility, which services all equipment used outside the Northeast Corridor, (3) modernizing its locomotive and passenger car fleet, acquiring high-speed trains, and continuing rail improvements in the Northeast Corridor, (4) negotiating new operating agreements with the freight railroads, which own about 97 percent of the track over which Amtrak operates, (5) negotiating labor issues and work

rules with Amtrak's union employees, and (6) incurring higher costs for employee health benefits and environmental clean-up.

To address its financial and operating problems, Amtrak has developed a strategic and business plan that is designed to eliminate the need for federal operating subsidies by the year 2002. To facilitate the proposed changes, Amtrak has been reorganized into strategic business units (SBU) which are responsible for different "product lines." The West Coast SBU is responsible for operations in California, Washington, and Oregon; the Northeast Corridor SBU is responsible for the Metroliners and other operations between Washington and Boston; and the Intercity SBU has responsibility for the remaining rail passenger operations. The parent SBU in Washington, D.C., handles the corporate operations, such as legal affairs and national advertising, that transcend the geographic areas covered by the SBUs. Amtrak believes that decentralization of authority and responsibility, combined with route, service, and fare changes, will allow it to achieve operating self-sufficiency. However, Amtrak's plan is predicated on continued availability of federal funds for capital improvements, greater state support for 403(b) services, and significant productivity savings. While Amtrak continues to work toward eliminating federal operating subsidies by the year 2002, it remains to be seen whether it can achieve self-sufficiency if its assumptions are not wholly fulfilled.

If substantially increasing the level of federal funding for Amtrak, especially for capital investments, is not possible in today's budgetary environment, now may be the time for the Congress to consider refocusing Amtrak's efforts and reducing its current route system, retaining service in locations where Amtrak can carry the largest number of passengers in the most cost-effective manner. The Congress could consider establishing a temporary commission similar to the military base closure commission to restructure Amtrak's operations and reduce the route network so that efficient and quality service can be provided within the available funding from all sources—federal, state and local, and private.

Savings estimates cannot be made until specific proposals are developed regarding changes in Amtrak operations and routes. These estimates cannot be made because restructuring proposals would affect the amount of the reduction in federal funding for Amtrak's capital, operating, and Northeast Corridor activities.

---

Related GAO Products

Amtrak's Strategic Business Plan: Progress to Date (GAO/RCED-96-187, July 24, 1996).

Northeast Rail Corridor: Information on Users, Funding Sources, and Expenditures (GAO/RCED-96-144, June 27, 1996).

Intercity Passenger Rail: Amtrak's Financial and Operating Conditions Threaten Its Longterm Viability (GAO/RCED-95-71, February 6, 1995).

Amtrak: Key Decisions Need to be Made in the Face of Deteriorating Financial Condition (GAO/T-RCED-94-186, April 13, 1994).

Amtrak: Deteriorated Financial Condition and Costly Future Challenges (GAO/T-RCED-94-145, March 23, 1994).

Amtrak: Financial Condition has Deteriorated and Future Costs Make Recovery Difficult (GAO/T-RCED-94-155, March 17, 1994).

---

GAO Contact

John H. Anderson, Jr., (202) 512-2834

## Option: Military Airport Program Funds

Authorizing committees	Commerce, Science, and Transportation (Senate) Transportation and Infrastructure (House)
Primary agency	Department of Transportation
Account	Grants-in-Aid for Airports (Airport and Airway Trust Fund) (69-8106)
Spending type	Discretionary/Direct
Budget subfunction	Air Transportation
Framework theme	Improve efficiency

The Airport Improvement Program (AIP), the nation's multibillion dollar program for planning and improving its airport infrastructure, includes legislatively established funding categories for specific uses. One such category—the Military Airport Program (MAP)—was established in 1990 to assist current and former military airports located in congested metropolitan areas in converting to viable civilian airports.

However, 9 of the 12 airports selected by the Federal Aviation Administration (FAA) to participate in MAP do not meet key legislatively established program goals. Five of the airports are not located in congested air traffic areas and are unlikely to increase capacity, either in major metropolitan areas or systemwide. Nine airports selected had already been operating as joint or civilian airports for 10 or more years, and many of these already had the types of facilities in place that the program was designed to develop.

The Congress could suspend participation in MAP or further limit participation. In extending authorization for the AIP in 1996, the Congress reduced from 15 to 12 the number of airports that could participate in MAP during a fiscal year. The Congress retained the criteria that to participate in MAP an airport would reduce congestion at airports experiencing 20,000 hours of annual delays in their commercial passenger traffic. Also, the Congress revised the criteria to allow MAP designation for recently closed and realigned military airfields under the Defense Base Closure and Realignment Acts that could be classified as civil commercial or reliever airports. The Congress also could limit participation to those airports where first civilian use occurred after the 1988 and later base closure and realignment processes. If the Congress did not wish airports participating in MAP to receive AIP funding in lieu of MAP funding, it would need to specify this. However, because any or all of these actions could result in a

redirection rather than a reduction in AIP spending, the Congress also would need to reduce the contract authority and obligation limitation for the AIP to achieve savings. Given past problems in selecting airports that meet legislatively-established criteria, one option the Congress could consider is eliminating MAP as shown in the table below.

**Five-Year Savings**

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	19	19	19	19	19
Outlays	3	11	15	17	18
Savings from the 1997 funding level adjusted for inflation					
Budget authority	19	19	20	21	21
Outlays	3	11	16	18	20

Source: Congressional Budget Office.

**Related GAO Product**

Airport Improvement Program: The Military Airport Program Has Not Achieved Intended Impact (GAO/RCED-94-209, June 30, 1994).

**GAO Contact**

John H. Anderson, Jr., (202) 512-2834

## Option: Cargo Preference Laws

Authorizing committees	Commerce, Science, and Transportation (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Multiple
Primary agency	Multiple
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Water transportation
Framework theme	Reassess objectives

Cargo preference laws require that certain government-owned or financed cargo shipped internationally be carried on U.S.-flagged vessels. This guarantees a minimum amount of business for the U.S. merchant fleet. This promotes other sectors of the maritime industry because U.S.-flagged vessels are required by law to be crewed by U.S. mariners, are generally required to be built in U.S. shipyards, and are encouraged to be maintained and repaired in U.S. shipyards. In addition, U.S.-flag carriers commit to providing capacity in time of national emergencies.

However, because U.S.-flagged vessels often charge higher rates to transport cargo than foreign-flagged vessels, cargo preference laws increase the government's transportation costs. For fiscal years 1989 through 1993, four federal agencies—the Departments of Defense, Agriculture, and Energy and the Agency for International Development—were responsible for more than 99 percent, by tonnage, of government cargo subject to cargo preference laws.<sup>22</sup> Cargo preference laws increased these federal agencies' transportation costs by an estimated \$578 million per year in fiscal years 1989 through 1993 because U.S.-flagged vessels generally charge more to carry cargo than their foreign-flagged counterparts. The average was about \$710 million per year when the costs associated with the Persian Gulf War were included. In an October 1996 letter to GAO, the Maritime Administrator claimed that CBO's estimate<sup>23</sup> of savings from the elimination of cargo preference laws was too high but agreed that savings would occur.

<sup>22</sup>Currently, the Departments of Defense and Agriculture, the Agency for International Development, and the Export-Import Bank are responsible for most of the payments made to shippers under cargo preference laws.

<sup>23</sup>See Addressing the Deficit: Updating the Budgetary Implications of Selected GAO Work (GAO/OCG-96-5, June 28, 1996) for CBO's previous estimate of savings for this option.

The effect of cargo preference laws on the U.S. merchant marine industry is mixed. On one hand, the share of international oceanborne cargo carried by U.S. vessels has declined despite cargo preference laws because most oceanborne international cargo is not subject to cargo preference laws. On the other hand, these laws appear to have a substantial impact on the U.S. merchant marine industry by providing incentive for vessels to remain in the U.S. fleet.

If the Congress eliminated cargo preference laws, federal agencies would save hundreds of millions of dollars yearly, but the U.S. fleet would be significantly smaller and shipboard jobs would be lost. If the laws were eliminated, the following savings could be achieved.<sup>24</sup>

Five-Year Savings

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	216	266	317	367	418
Outlays	154	238	295	346	397
Savings from the 1997 funding level adjusted for inflation					
Budget authority	221	279	341	406	477
Outlays	157	250	315	381	450

Source: Congressional Budget Office.

Related GAO Products

Management Reform: Implementation of the National Performance Review's Recommendations (GAO/OCG-95-1, December 5, 1994).

Maritime Industry: Cargo Preference Laws—Their Estimated Costs and Effects (GAO/RCED-95-34, November 30, 1994).

Cargo Preference: Effects of U.S. Export-Import Cargo Preference Laws on Exporters (GAO/GGD-95-2BR, October 31, 1994).

<sup>24</sup>The termination of cargo preference requirements for all government-sponsored cargoes would probably cause additional defaults on outstanding loans guaranteed by the Maritime Administration. CBO estimates that such defaults would increase mandatory spending by between \$2 million and \$20 million over the next several years.

---

**Appendix III**  
**Options for Deficit Reduction**

---

Cargo Preference Requirements: Objectives Not Significantly Advanced  
When Used in U.S. Food Aid Programs (GAO/GGD-94-215, September 29,  
1994).

---

**GAO Contact**

John H. Anderson, Jr., (202) 512-2834

## Option: Fees Paid by Foreign-Flagged Cruise Ships

Authorizing committees	Judiciary (Senate and House)
Primary agency	Department of Justice
Spending type	Direct
Framework theme	Redefine beneficiaries

The multibillion dollar passenger cruise market in the United States is almost exclusively served by foreign-flagged cruise vessels. With the exception of two, there are no oceangoing U.S.-flagged cruise vessels of any substantial size. Access to the U.S. market is, therefore, a very lucrative privilege, which is made even more so because the vessels and their crews pay virtually no corporate or personal U.S. income tax.

To ensure adequate shoreside facilities, the safety of U.S. passengers and property, and enforcement of immigration laws, the federal government has enacted laws and dispersed responsibility for their administration and enforcement throughout several departments and agencies of the federal government. This raises the question of whether the foreign-flagged cruise vessels, which are enjoying substantial profits as a result of their monopoly, are paying their fair share of the cost to the federal government of ensuring that this extremely valuable U.S. market operates safely and in accordance with our laws and regulations.

Seven agencies provide services to foreign-flagged cruise vessels. For fiscal year 1993, we found that all but two agencies—the Coast Guard and the Immigration and Naturalization Service (INS)—charged fees for these services that were about equal to or exceeded their costs to provide the services. In 1996, the Congress authorized the Coast Guard to begin collecting fees for its inspection services. However, INS is still not collecting fees that recover the cost of passenger inspections because passengers are exempt from its fee when arriving at a port of entry in the United States on a cruise originating in Canada, Mexico, a territory or possession of the United States, or any adjacent island. If the Congress lifted this exemption, the following savings would occur.

### Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Added receipts	37	37	37	37	37

Source: Congressional Budget Office.

---

**Appendix III**  
**Options for Deficit Reduction**

---

<b>Related GAO Product</b>	None
<b>GAO Contact</b>	John H. Anderson, Jr., (202) 512-2834

---

## Option: Department of Transportation's Oversight of Its University Research

Authorizing committees	Commerce, Science and Transportation (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Transportation (Senate) Transportation and Related Agencies (House)
Primary agency	Department of Transportation
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Ground, Air, Water, and Other Transportation
Framework theme	Improve efficiency

The Department of Transportation (DOT) conducts a variety of research to enhance safety, mobility, environmental quality, efficiency, and economic growth in the nation's transportation system. The results of DOT's research programs include prototypes of systems, new operating procedures, data used to focus policy decisions, and regulations. Within DOT several offices are responsible for the oversight of research and development activities. In addition, each of DOT's operating administrations is responsible for reviewing and monitoring its own research to ensure that the university awards' objectives are met and the costs are appropriate.

While DOT's spending on research at universities has grown significantly between fiscal years 1988 and 1993, DOT does not have an integrated plan to ensure that sponsored research is needed to meet departmental goals. In addition, a lack of oversight on some university awards led to overcharges of almost \$450,000 and unpaid cost-sharing totaling \$3 million in a sample of awards reviewed in detail. More effective planning and management of the research program could reduce costs by limiting duplicate research and ensuring that recipients follow award guidelines on allowable costs and cost sharing.

As GAO recommended, DOT has completed the development of a departmentwide database to track the purpose and costs associated with each university research award. GAO continues to recommend that DOT evaluate the operating administrations' processes to ensure that they have adequate policies and procedures to carry out their responsibilities for monitoring awards.

---

CBO does not disagree that improved monitoring and oversight of DOT's university research can reduce outlays. GAO findings of overcharges and unpaid cost sharing for a sample of grants suggest that the Congress could slow DOT's university research spending by reducing appropriations until improvements in necessary planning and management processes are made. However, savings from this option would depend on which among many small accounts are reduced and the amounts of these reductions.

---

Related GAO Product

Department of Transportation: University Research Activities Need Greater Oversight (GAO/RCED-94-175, May 13, 1994).

---

GAO Contact

John H. Anderson, Jr., (202) 512-2834

## Option: Fees for Certification of New Airlines

Authorizing committees	Commerce, Science, and Transportation (Senate) Transportation and Infrastructure (House)
Primary agency	Department of Transportation
Spending type	Direct
Framework theme	Redefine beneficiaries

To obtain the necessary certification to begin operations, applicants currently pay nominal fees to the Department of Transportation's (DOT) Office of the Secretary (OST) but nothing to the Federal Aviation Administration (FAA). The fees that applicants currently pay represent only a small fraction of what it costs the government to conduct certification activities. For example, applicants that completed OST's and FAA's certification processes paid an average fee of \$760 for certification, less than 1 percent of the government's average estimated cost of \$154,000 to certify each applicant.

Department of Transportation officials said that a portion of the certification costs is recouped from ticket and fuel taxes paid by the operating airlines. These taxes are deposited into the Airport and Airway Trust Fund. Even so, applicants do not pay into the fund until they begin operations; therefore, applicants that never begin operations never contribute to the fund. For example, 80 of the 180 applicants that filed applications with OST between January 1990 and July 1995 never began operations and thus had never contributed to the fund.

OST and FAA officials recognize that the existing fees are insufficient to cover certification costs but have not yet determined the appropriateness of the current fee structures. OST has recently undertaken a review of all fees it charges for aviation licensing activities, which were last updated 10 years ago, and plans to issue a notice of proposed rulemaking to update the fees. According to the Deputy Director of the Flight Standards Service, FAA plans to examine all services, such as new airlines, pilot training, and aircraft inspection requiring certificates and to review the existing fee structures to determine the extent to which the government's costs have been or should be recouped. Legislation introduced in the 104th Congress would have allowed FAA to charge fees for various aviation services, including new airline certification fees.

---

**Appendix III**  
**Options for Deficit Reduction**

---

---

If the Congress were to direct OST and FAA to fully recover the costs of airline certification from applicants, the following revenue could be achieved.

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Added receipts	3	3	3	3	3

Source: Congressional Budget Office.

---

**Related GAO Product**

Certification of New Airlines: Department of Transportation Has Taken Action to Improve Its Certification Process (GAO/RCED-96-8, January 11, 1996).

---

**GAO Contact**

John H. Anderson, Jr. (202) 512-2834

## Option: Fees for Registering Aircraft

Authorizing committees	Commerce, Science, and Transportation (Senate) Transportation and Infrastructure (House)
Primary agency	Department of Transportation
Spending type	Direct
Framework theme	Redefine beneficiaries

In 1977, the Congress amended the Federal Aviation Act and identified three categories of aircraft owners—U.S. citizens, resident aliens, and U.S.-based foreign companies—that may register aircraft in the United States. To register an aircraft, an eligible owner submits a \$5 fee. As of the end of fiscal year 1996, 307,503 aircraft were registered in the United States. From fiscal year 1993 to 1996, the number of registrations processed annually has ranged from about 45,000 to 49,000.

In 1993, we reported that the Federal Aviation Administration (FAA) was not fully recovering the cost of processing aircraft registration applications and estimated that, by not increasing fees since 1968 to recover costs, FAA had foregone about \$6.5 million in additional revenue. In 1993, we recommended that FAA accelerate implementation of rules it proposed in 1990 for increasing aircraft registration fees. FAA now expects that a Notice of Proposed Rulemaking will be issued in November 1997, with an effective date of January 1998. The Congress may want to encourage FAA to meet these milestones in order to avoid any further losses in revenues.

If FAA recovered the full cost of processing aircraft registration applications, the following additional revenue could be achieved.

### Five-Year Savings

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Added receipts	1	1	1	1	1

Source: Congressional Budget Office.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Related GAO Product**

Aviation Safety: Unresolved Issues Involving U.S.-Registered Aircraft  
(GAO/RCED-93-135, June 18, 1993).

---

**GAO Contact**

John H. Anderson, Jr. (202) 512-2834

---

**450 Community and Regional Development** • Eligibility for Federal Emergency Management Agency Public Assistance

## Option: Eligibility for Federal Emergency Management Agency Public Assistance

Authorizing committees	Environment and Public Works (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	VA, HUD and Independent Agencies (Senate and House)
Primary agency	Federal Emergency Management Agency
Account	Disaster Relief Fund (58-0104)
Spending type	Discretionary
Budget subfunction	Disaster relief and insurance
Framework theme	Redefine beneficiaries

The Federal Emergency Management Agency's (FEMA) Public Assistance Program helps pay state and local governments' costs of repairing and replacing eligible public facilities and equipment damaged by natural disasters. It also pays other disaster-related costs, such as debris removal, emergency protective measures, and the administrative costs of managing the recovery effort. Many private nonprofit organizations, such as schools, hospitals, and utilities are also eligible for assistance. The cost of the Public Assistance Program has increased dramatically in recent years—in constant 1995 dollars, FEMA obligated over \$6.5 billion in public assistance for 246 disasters and emergencies declared during fiscal years 1989 through 1994, as compared with about \$1 billion for 151 disasters and emergencies declared during the preceding 6 fiscal years. Although much of this is due to increased disaster activity, changes in the amount and types of assistance provided and eligible recipients of assistance have also been a factor.

In a May 1996 report, GAO presented a number of options identified by public assistance program officials in FEMA's 10 regional offices that, if implemented, could reduce the cost of the program. Among the options recommended most strongly were: placing limits on the appeals process; eliminating eligibility for some facilities that generate revenue, lack required insurance, or are not delivering government services; and limiting the impact of codes and standards. Savings for all of these options could not be estimated because it is difficult to isolate the effects of fluctuating disaster activity versus changes in eligibility and because FEMA's data base does not enable the separation of costs related to some of these options. However, CBO estimates that eliminating eligibility for all private nonprofit organizations—many of which are revenue-generating facilities such as utilities, hospitals, and universities—would yield the following savings.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	52	52	52	52	52
Outlays	10	23	34	42	47
Savings from the 1997 funding level adjusted for inflation					
Budget authority	53	55	56	58	59
Outlays	11	24	36	45	51

Source: Congressional Budget Office.

---

**Related GAO Products**

Disaster Assistance: Improvements Needed in Determining Eligibility for Public Assistance (GAO/RCED-96-113, May 23, 1996).

Disaster Assistance: Improvements Needed in Determining Eligibility for Public Assistance (GAO/T-RCED-96-166, April 30, 1996).

---

**GAO Contact**

Judy A. England-Joseph, (202) 512-7631

---

**500 Education,  
Training,  
Employment, and  
Social Services**

- Consolidation of Student Aid Programs
- Consolidation of Employment and Training Programs

## Option: Consolidation of Student Aid Programs

Authorizing committees	Labor and Human Resources Committee (Senate) Economic and Educational Opportunities Committee (House)
Appropriations subcommittees	Labor, Health and Human Services, Education, and Related Agencies (Senate and House)
Primary agency	Department of Education
Account	Student Financial Assistance (91-0200)
Spending type	Discretionary/Direct
Budget subfunction	Higher Education
Framework theme	Improve efficiency

The Department of Education provides loans and grants to students to help finance their higher education. The federal government's role in supporting higher education is contributing about 50 percent of its education budget to postsecondary education programs and activities, most of which are for student financial aid. The largest programs provide federally insured loans and Pell grants for students. The Federal Family Education Loan (FFEL) and Federal Direct Student Loan (FDSL) programs compose the largest source of federal student financial aid. FFEL and FDSL programs are entitlements, but Pell grants, the largest federal grant-in-aid program, are awarded to the most needy eligible students, dependent on the availability of appropriated funds.

Although the student loan and Pell grant programs provide the majority of federal financial aid to students for postsecondary education, another 22 smaller programs are targeted to specific segments of the postsecondary school population. These programs were collectively funded at \$1.1 billion for fiscal year 1995. The programs fund remedial and support services for prospective students from disadvantaged families, programs to enhance the labor pool in designated specialties, grants to students for volunteer activities, and grants to women and minorities who are underrepresented in graduate education.

These smaller grant programs may be considered candidates for consolidation. They could be consolidated with other larger programs or among themselves. For example, programs directed to attracting minority and disadvantaged students could be consolidated into one program. Or a certain amount of funds could be provided to states through a single grant, in lieu of several smaller grants, to cover some or all of the purposes of

several small grant programs. In 1995, we identified 22 programs that could be candidates for consolidation. In anticipation of the administrative savings that could be achieved through consolidation, funding for these programs could be reduced 10 percent each year as part of the consolidation. Since all savings achieved through consolidation would be administrative in nature, we assume that there would be no adverse impact on students' access to postsecondary education—a principal objective of the enabling legislation, the Higher Education Act of 1965, as amended.

Five-Year Savings

Dollars in millions					
	FY 98	FY 99	FY00	FY01	FY02
Savings from 1997 funding level					
Budget authority	101	101	101	101	101
Outlays	12	81	99	100	101
Savings from 1997 funding level adjusted for inflation					
Budget authority	104	107	110	113	116
Outlays	12	84	105	108	112

Source: Congressional Budget Office.

Related GAO Products

Department of Education: Information on Consolidation Opportunities and Student Aid (GAO/T-HEHS-95-130, April 6, 1995).

Department of Education: Opportunities to Realize Savings (GAO/T-HEHS-95-56, January 18, 1995).

GAO Contact

Carlotta C. Joyner, (202) 512-7002

## Option: Consolidation of Employment and Training Programs

Authorizing committees	Multiple
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agencies	Multiple
Accounts	Multiple
Spending type	Discretionary/Direct
Budget subfunction	Training and Employment
Framework theme	Improve efficiency

The challenges posed by increased global competition and a changing economy call for a renewed commitment to invest in the American workforce. The federal government's effort to meet this commitment has been to increase investment in a wide array of programs that target people experiencing barriers to employment and to add other new programs that target particular groups. Since 1992 GAO has issued numerous reports and testimonies commenting on federal employment and training programs. Most recently, GAO identified more than 150 federal programs and funding streams providing employment and training assistance. These programs are spread across 15 departments and independent agencies with a total budget of about \$20 billion.

GAO's analysis of programs that target the economically disadvantaged showed that those programs had similar goals, often served the same categories of people, and provided many of the same services using separate, yet parallel, delivery structures. This overlap can add unnecessary administrative costs at each level of government—federal, state, and local.

In the 104th Congress, the House and the Senate passed bills that would consolidate many of the federally funded employment training programs. The House bill would have created three block grants by consolidating 74 employment training programs and eliminating 52 higher education programs. The Senate bill would have consolidated 83 programs into a single block grant. Although final passage was not accomplished before the Congress adjourned, it is likely that this issue will reemerge in the 105th Congress.

The amount of any savings from consolidating programs will depend on how many programs are included, the degree and kind of reductions, and the level of federal involvement. To illustrate the potential for savings from

consolidating employment and training programs, one option would be to consolidate the following programs for the economically disadvantaged: Job Training Partnership Act (JTPA) IIA Training Services for the Disadvantaged Adult, JTPA IIA State Education Programs, JTPA IIA Incentive Grants, Food Stamp Employment and Training, Family Self-Sufficiency Program, Vocational Education—Basic State Programs, Educational Opportunity Centers, and Student Literacy and Mentoring Corps. A second option could consolidate the following programs for dislocated workers: JTPA Economic Dislocation and Worker Adjustment Assistance (EDWAA) (substate allotment), JTPA EDWAA (governor's discretionary), JTPA EDWAA (Secretary's discretionary), JTPA Defense Conversion Adjustment Program, JTPA Clean Air Employment Transition Assistance, JTPA Defense Diversification, Trade Adjustment Assistance—Workers, Vocational Education—Demonstration Centers for the Training of Dislocated Workers, and the Transition Assistance Program.

Consolidating similar employment and training programs would result in administrative efficiencies to the states as well as improved opportunities to reduce fragmentation and increase effectiveness in service delivery. In consolidating programs, the Congress would also want to consider the implications for federal agency workloads and responsibilities. In anticipation of the benefits states will receive, funding for the programs included could be reduced 10 percent each year as part of the consolidation. Savings from the consolidations are shown in the two sets of tables that follow, which separately identify direct and discretionary spending.

**Five-Year Savings**

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Option: Disadvantaged adults					
Discretionary spending					
Savings from the 1997 funding level					
Budget authority	195	195	195	195	195
Outlays	14	168	193	196	196
Savings from the 1997 funding level adjusted for inflation					
Budget authority	199	205	211	216	222
Outlays	15	173	203	211	217

Note: The Family Self Sufficiency Program did not receive an appropriation for fiscal year 1997.

Source: Congressional Budget Office.

**Appendix III**  
**Options for Deficit Reduction**

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Option: Dislocated workers					
Direct spending					
Budget authority	9	8	8	8	8
Outlays	3	7	8	8	8

Source: Congressional Budget Office.

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Option: Dislocated workers					
Discretionary spending					
Savings from the 1997 funding level					
Budget authority	133	133	133	133	133
Outlays	9	94	127	133	133
Savings from the 1997 funding level adjusted for inflation					
Budget authority	136	140	144	148	152
Outlays	9	97	132	143	147

Note: JTPA Defense Conversion, JTPA Clean Air, JTPA Defense Diversification, and Vocational Education Demonstration Centers did not receive appropriations in fiscal year 1997.

Source: Congressional Budget Office.

**Related GAO Products**

Employment Training: Successful Projects Share Common Strategy  
 (GAO/HEHS-96-108, May 7, 1996).

Block Grants: Characteristics, Experience, and Lessons Learned  
 (GAO/HEHS-95-74, February 9, 1995).

Multiple Employment Training Programs: Major Overhaul Is Needed to Create a More Efficient, Customer-Driven System (GAO/T-HEHS-95-70, February 6, 1995).

Multiple Employment Training Programs: Major Overhaul Is Needed to Reduce Costs, Streamline the Bureaucracy, and Improve Results  
 (GAO/T-HEHS-95-53, January 10, 1995).

---

Multiple Employment Training Programs: Basic Program Data Often Missing (GAO/T-HEHS-94-239, September 28, 1994).

Multiple Employment Training Programs: Overlap in Programs Raises Questions About Efficiency (GAO/HEHS-94-193, July 11, 1994).

Department of Labor: Rethinking the Federal Role in Worker Protection and Workforce Development (GAO/T-HEHS-95-125, April 4, 1994).

Multiple Employment Training Programs: Major Overhaul Is Needed (GAO/T-HEHS-94-109, March 3, 1994).

Multiple Employment Training Programs: Most Federal Agencies Do Not Know if Their Programs Are Working Effectively (GAO/HEHS-94-88, March 2, 1994).

Multiple Employment Training Programs: Overlapping Programs Can Add Unnecessary Administrative Costs (GAO/HEHS-94-80, January 28, 1994).

Multiple Employment Training Programs: Conflicting Requirements Hamper Delivery of Services (GAO/HEHS-94-78, January 28, 1994).

Multiple Employment Programs: National Employment Training Strategy Needed (GAO/T-HRD-93-27, June 18, 1993).

Multiple Employment Programs (GAO/HRD-93-26R, June 15, 1993).

Multiple Employment Programs (GAO/HRD-92-39R, July 24, 1992).

---

GAO Contact

Carlotta C. Joyner, (202) 512-7002

---

## 550 Health

- Prescription Drug and Medicaid Fraud
- Medicaid: States Use Illusory Approaches to Shift Program Costs to the Federal Government
- Medicaid Formula: Fairness Could Be Improved
- Automated Drug Utilization Reviews
- Payments to Rural Health Clinics
- Public Health Service Commissioned Corps
- Unified Risk-Based Food Safety System

## Option: Prescription Drug and Medicaid Fraud

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of Health and Human Services
Account	Grants to States for Medicaid (75-0512)
Spending type	Direct
Budget subfunction	Health care services
Framework theme	Improve efficiency

The Medicaid program typically includes prescription drugs in its covered services, and diversion of these medications has been a problem for at least a decade. Such diversion can involve pharmacists routinely adding drugs to legitimate prescriptions and keeping the overage for themselves or for sale to others; clinics providing inappropriate prescriptions to Medicaid recipients who trade them for cash or merchandise or have them filled and then sell the drugs themselves; and individuals who provide recipients with abusable drugs in exchange for subsequent illicit use of their Medicaid recipient numbers. Participants in drug diversion schemes therefore frequently face added charges of fraud, false claims, or other related violations of state or federal law.

The financial incentives for diverting drugs are substantial and apply to both controlled and noncontrolled substances. Legal controlled drugs—those with significant potential for physical or psychological harm—are appealing because they are relatively cheap and chemically pure compared to illicit drugs. Profits from street sales can amount to several thousand percent of initial investment. One drug costing the pharmacy less than 50 cents per pill sold on the street for \$85 per pill. Noncontrolled drugs, also, have recently become popular targets for diversion because they are comparatively easier to obtain and are particularly desirable if obtained under an insurance program—such as Medicaid—requiring little or no copayment. With no or minimal outlay on the part of the recipient, the street price—while typically lower than the pharmacy price and thus attractive to buyers—is entirely profit.

Medicaid accounts for 80 percent of all federal spending on prescription drugs. In fiscal year 1995, Medicaid's drug benefit cost more than \$10 billion. While precise dollar losses due to diversion—as with all fraud—are impossible to identify, New York State officials estimate that in

1990, these losses represented about 10 percent of the state's total Medicaid spending for prescription drugs.

States have various initiatives under way to curb Medicaid prescription drug diversion but are hampered by insufficient resources, lengthy and frequently unproductive investigations, and the prevalence of repeat offenders and resilient schemes. GAO believes that the Health Care Financing Administration should assume an active leadership role in orchestrating and encouraging states' efforts and fostering the development and implementation of preventive measures. The Department of Health and Human Services (HHS) generally agrees with the GAO findings and recommendation, but believes it is not feasible unless new staff resources can be identified and allocated.

The Congress should encourage HHS to take a stronger role. If states curbed these losses by even a small percentage, future Medicaid costs would be reduced substantially. However, CBO cannot develop an estimate for this option until specific strategies are identified. Moreover, savings would be net of the additional resources required to curb fraudulent activities.

---

## Related GAO Products

Prescription Drugs and Medicaid: Automated Review Systems Can Help Promote Safety, Save Money (GAO/AIMD-96-72, June 11, 1996).

Medicare and Medicaid: Opportunities to Save Program Dollars by Reducing Fraud and Abuse (GAO/T-HEHS-95-110, March 22, 1995).

Prescription Drugs: Automated Prospective Review Systems Offer Significant Potential Benefits for Medicaid (GAO/AIMD-94-130, August 5, 1994).

Medicaid: A Program Highly Vulnerable to Fraud (GAO/T-HEHS-94-106, February 25, 1994).

Medicaid Drug Fraud: Federal Leadership Needed to Reduce Program Vulnerabilities (GAO/HRD-93-118, August 2, 1993).

Medicaid Prescription Drug Diversion: A Major Problem, but State Approaches Offer Some Promise (GAO/T-HRD-92-48, July 29, 1992).

---

## GAO Contact

William J. Scanlon, (202) 512-7114

## Option: Medicaid: States Use Illusory Approaches to Shift Program Costs to the Federal Government

Authorizing committees	Finance (Senate) Commerce (House)
Primary agency	Department of Health and Human Services
Account	Grant to States for Medicaid (75-0512)
Spending type	Direct
Budget subfunction	Health care services
Framework theme	Reassess objectives

GAO raised a concern that in fiscal year 1993, Michigan, Texas, and Tennessee used illusory financing approaches to obtain about \$800 million in federal Medicaid funds without effectively committing their share of matching funds. Under these approaches, facilities that received increased Medicaid payments from the states, in turn, paid the states almost as much as they received. Consequently, the states realized increased revenue that was used to reduce their state Medicaid contributions, fund other health care needs, and supplement general revenue funding. For the period from fiscal year 1991 to fiscal year 1995, Michigan alone reduced its share of Medicaid costs by almost \$1.8 billion through financing partnerships with medical providers and local units of government. GAO's analysis of Michigan's transactions showed that even though legislation curtailed certain creative financing practices, the state was able to reduce its share of Medicaid costs at the expense of the federal government by \$428 million through other mechanisms.

The practices that involve payments to state-owned facilities are restricted by Omnibus Budget Reconciliation Act of 1993 provisions that limit such payments to unreimbursed Medicaid and uninsured costs. However, states can continue to make payments to local government-owned facilities, including payments that exceed costs, and have the facilities return the payments to the states. States are not required to justify the need for increased reimbursements, nor is the Health Care Financing Administration required to verify that moneys are used for the purpose for which they were obtained.

GAO believes that the Medicaid program should not allow states to benefit from illusory arrangements and that Medicaid funds should only be used to help cover the costs of medical care incurred by those medical facilities that provide the care. GAO believes the Congress should enact legislation to minimize the likelihood that states can develop arrangements whereby

---

providers return Medicaid payments to the states, thus effectively reducing the state's share of Medicaid funding. This legislation should prohibit Medicaid payments that exceed costs to any government-owned facility.

Savings are difficult to estimate for this option because national data on these practices are not readily available. In addition, Medicaid spending is influenced by the use of waivers from federal requirements, which allows states to alter Medicaid financing formulas. Future requests and use of waivers by states are uncertain.

---

**Related GAO Products**

State Medicaid Financing Practices (GAO/HEHS-96-76R, January 23, 1996).

Michigan Financing Arrangements (GAO/HEHS-95-146R, May 5, 1995).

Medicaid: States Use Illusory Approaches to Shift Program Costs to the Federal Government (GAO/HEHS-94-133, August 1, 1994).

Medicaid: The Texas Disproportionate Share Program Favors Public Hospitals (GAO/HRD-93-86, March 30, 1993).

---

**GAO Contact**

William J. Scanlon, (202) 512-7114

Option:  
Medicaid Formula:  
Fairness Could Be  
Improved

Authorizing committees	Finance (Senate) Commerce (House)
Primary agency	Department of Health and Human Services
Account	Grant to States for Medicaid (75-0512)
Spending type	Direct
Budget subfunction	Health care services
Framework theme	Reassess objectives

The Medicaid program provides medical assistance to current beneficiaries of the Temporary Assistance for Needy Families (TANF) program who qualified under their states' pre-reform AFDC plans, low-income people who receive Supplemental Security Income, and certain other low-income individuals. The federal government and the states share the financing of the program. Under current law, the federal commitment is open-ended: federal outlays rise with the costs and use of Medicaid services. The federal share of the program costs varies with the per capita income of the state. Consequently, high-income states pay a larger share of the benefits than low-income states. By law, the federal share can be no less than 50 percent and no more than 83 percent.

Since 1986, GAO has issued numerous reports and testimonies that identify ways in which the fairness of federal grant formulas could be improved. With respect to Medicaid, GAO believes that the fairness of the matching formula in the open-ended program could be improved by replacing the per capita income factor with three factors—the number of people living below the official poverty line, the total taxable resources of the state, and the differences in health care costs across states—and by reducing the minimum federal share to 40 percent. These changes could reduce federal reimbursements by reducing the federal share in states with the most generous benefits, the fewest low-income people in need, and the greatest ability to fund benefits from state resources. These changes could redirect federal funding to states with the highest concentration of people in poverty and the least capability of funding these needs from state resources.

To illustrate the savings that could be achieved from changes in the Medicaid formula, CBO estimates that if the minimum federal share were reduced to 40 percent, the following savings could be achieved.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>
Savings from the 1997 funding level adjusted for inflation					
Budget authority	7,040	7,590	8,210	8,880	9,630
Outlays	7,040	7,590	8,210	8,880	9,630

Source: Congressional Budget Office.

---

**Related GAO Products**

Medicaid: Matching Formula's Performance and Potential Modifications  
(GAO/T-HEHS-95-226, July 27, 1995).

Medicaid Formula: Fairness Could Be Improved (GAO/T-HRD-91-5,  
December 7, 1990).

---

**GAO Contact**

William J. Scanlon, (202) 512-7114

## Option: Automated Drug Utilization Reviews

Authorizing committees	Finance (Senate) Commerce (House)
Primary agency	Department of Health and Human Services
Account	Grants to States for Medicaid (75-0512)
Spending type	Direct
Budget subfunction	Health Care Services
Framework theme	Improve efficiency

Amendments to Title XIX of the Social Security Act required that states implement drug utilization review (DUR) programs in their Medicaid programs by January 1, 1993. Under DUR, states must review Medicaid prescriptions to (1) determine whether they are appropriate, medically necessary, and not likely to result in adverse medical reactions and (2) identify fraud, waste, and abuse. Reviews must be performed prospectively (before prescriptions are filled) and retrospectively (on a quarterly basis after prescriptions are filled).

The amendments encourage, but do not require, states to use statewide automated systems to conduct prospective reviews. However, use of these systems by some states shows significant potential to both improve patient safety and reduce Medicaid program costs. Automated prospective DUR systems operated by five geographically diverse states—Maryland, Missouri, New Mexico, Oregon, and Pennsylvania—together cancel hundreds of thousands of Medicaid prescriptions annually that represent potential inappropriate drug therapy or instances of waste, fraud, and/or abuse. Moreover, additional cancellations result from companion on-line screening capabilities that ensure recipients are eligible for Medicaid benefits at the time a prescription is presented. During 12-month periods for these five states, automated prospective DUR systems cancelled prescriptions totaling over \$30 million due to drug overutilization and Medicaid ineligibility. In contrast, the total one-time costs to install these systems was only \$1.9 million. Although these results are impressive, the greatest potential savings for the Medicaid program would result from avoiding hospitalizations due to inappropriate drug therapy (estimates of which range from 3 percent for the general population to 28 percent for the elderly). With Medicaid's fiscal year 1995 inpatient hospitalizations totaling about \$42 billion, even a limited implementation of automated prospective DUR systems could have a significant impact.

Most states have currently implemented or plan to implement automated prospective DUR systems, however, states implement these systems differently. The absence in some states of some types of drug therapy reviews, such as those for pregnancy conflict (use of prescribed drug is not recommended during pregnancy) and underutilization (an indication of noncompliance with a prescribed drug regimen), could have dramatic effects on patient safety. Also, whether or not states automatically deny early refill claims (request for prescription refill before a predetermined amount of a drug—such as 75 percent—has been consumed) can substantially affect the relative amount of the savings and the prevention of potential waste, fraud, and abuse.

Responsible for overseeing the states' implementation of DUR programs, the Health Care Financing Administration (HCFA) has encouraged the use of statewide automated prospective DUR systems through such statutorily-required efforts as conducting a demonstration project and issuing guidance to the states on prospective DUR cost and benefit reporting. However, given both the substantial safety benefits that can accrue to Medicaid recipients and savings to the Medicaid program through the effective use of automated prospective DUR systems, HCFA could more actively facilitate states' coordination and sharing of experiences and best practices for the effective implementation and use of these systems.

GAO work shows that the use of automated prospective DUR systems in five states saved millions of dollars by cancelling prescriptions which could have been inappropriate or fraudulent or where the recipient was not eligible for Medicaid benefits. The following table shows potential annual savings that would result from operating automated prospective DUR systems in all states for fiscal years 1998 through 2002.

**Five-Year Savings**

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level adjusted for inflation					
Budget authority	10	40	80	110	120
Outlays	10	40	80	110	120

Source: Congressional Budget Office.

---

Related GAO Products

Prescription Drugs and Medicaid: Automated Review Systems Can Help Promote Safety, Save Money (GAO/AIMD-96-72, June 11, 1996).

Prescription Drugs and the Elderly: Many Still Receive Potentially Harmful Drugs Despite Recent Improvements (GAO/HEHS-95-152, July 24, 1995).

Prescription Drugs: Automated Prospective Review Systems Offer Potential Benefits for Medicaid (GAO/AIMD-94-130, August 5, 1994).

---

GAO Contact

Joel C. Willemsen, (202) 512-6253

Option:  
Payments to Rural  
Health Clinics

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of Health and Human Services
Accounts	Federal Supplemental Insurance Trust Fund Account (20-8004) Grants to States for Medicaid (75-0512)
Spending type	Direct
Budget subfunction	Health Care Services and Medicare
Framework theme	Redefine beneficiaries

In 1977, the Rural Health Clinics (RHC) program was established to provide Medicare and Medicaid reimbursement to health clinics in underserved rural communities. Today, Medicare and Medicaid continue to reimburse RHC providers on the basis of their actual costs of providing care, while most other providers receive lower Medicare and Medicaid payments limited by set fee schedules. RHCS continue to receive cost-based reimbursement out of recognition that a fee schedule approach does not help ensure financial viability of low volume rural health care providers. Since 1989, the number of RHCS has grown by over 30 percent a year to nearly 3,000, with total Medicare and Medicaid payments to them expected to be over \$1 billion annually by the year 2000.

We found that contrary to its purpose, the RHC program is generally not focused on serving populations that have difficulty obtaining primary care in isolated rural areas. Rather, our work suggests that the additional Medicare and Medicaid funding provided to RHCS each year (estimated at \$295 million in 1996) increasingly benefits well-staffed, financially viable clinics in populated areas that already have extensive health care delivery systems in place. For example, almost half of the RHCS are located in areas with a nearby population of over 25,000. The program's broad eligibility criteria entitles RHCS to be reimbursed at cost, even if they are already financially viable using standard Medicare/Medicaid payment methods. Further, once designated as an RHC, the clinic remains eligible for cost reimbursement indefinitely, even if the area no longer qualifies as rural or underserved.

We recommended that the Congress eliminate cost-based reimbursement to RHCS unless they are located in areas with no other Medicare and Medicaid providers or can demonstrate that existing providers will not accept new Medicare and Medicaid patients and that the funding would be

---

**Appendix III**  
**Options for Deficit Reduction**

---

used to expand access to them. Assuming such improvements in the targeting of payments, the following savings could be achieved.

---

**Five-Year Savings**

Dollars in millions

	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>
Savings from the 1997 funding level adjusted for inflation					
Medicaid (Outlays)	20	30	30	30	30
Medicare (Outlays)	30	40	40	40	50
<b>Total</b>	<b>50</b>	<b>70</b>	<b>70</b>	<b>70</b>	<b>80</b>

Source: Congressional Budget Office.

---

**Related GAO Product**

Rural Health Clinics: Rising Program Expenditures Not Focused on Improving Care in Isolated Areas (GAO/HEHS-97-24, November 22, 1996).

---

**GAO Contact**

Bernice Steinhardt, (202) 512-7119

## Option: Public Health Service Commissioned Corps

Authorizing committees	Labor and Human Resources (Senate) Commerce (House)
Appropriations subcommittees	Labor, Health and Human Services, Education, and Related Agencies (Senate and House)
Primary agency	Department of Health and Human Services
Accounts	Multiple
Spending type	Discretionary/Direct
Budget subfunction	Health Care Services
Framework theme	Improve efficiency

The Commissioned Corps of the Public Health Service (PHS) was established in the late 1800s to provide medical care to sick and injured merchant seamen. Over the ensuing years, the Corps' responsibilities have grown, and Corps officers today are involved in a wide range of PHS programs, such as providing medical care to Native Americans at tribal and Indian Health Service facilities, psychiatric, medical, and other services in federal prisons, and health sciences research. As the result of their temporary service with the armed forces during World Wars I and II, members of the Corps were authorized to assume military ranks and receive military-like compensation, including retirement eligibility (at any age) after 20 years of service. Corps officers continue to receive virtually the same pay and benefits as military officers, including retirement.

GAO found that the functions of the Corps are essentially civilian in nature, and, in fact, some civilian PHS employees carry out the same functions as Corps members. Further,

- the Corps has not been incorporated into the armed forces since 1952, and the Department of Defense (DOD) has no specific plans for how the Corps might be used in future emergency mobilizations;
- generally, the Corps does not meet the criteria and principles cited in a DOD report as justification for the military compensation system; and
- other than Corps officers who are detailed to the Coast Guard and DOD, Corps members are not subject to the Uniform Code of Military Justice, which underlies how military personnel are managed.

Corps officials maintained that uniformed Corps members are needed as mobile cadres of professionals who can be assigned with little notice to any location and function, often in hazardous or harsh conditions.

---

However, other agencies, such as the Environmental Protection Agency, the National Transportation Safety Board, and the Federal Emergency Management Agency, use civilian employees to respond quickly to disasters and other emergency situations that could involve both hazardous or harsh conditions.

GAO's analysis showed that, based on 1994 costs, when all of the components of personnel costs—basic pay and salaries; special pay, allowances, and bonuses; retirement; health care; life insurance; and Corps members' tax advantages—are considered, PHS personnel costs could be reduced by converting the PHS Corps to civilian status. The amount of any cost reductions would depend on various factors, including the method by which any changes are implemented, the accuracy of the data PHS and DOD provided GAO, the applicability of 1994 costs to future years, how closely GAO's underlying assumptions match actual relationships between Corps and civilian personnel costs, and the manner in which any transition to civilian employment would be carried out.

Any decision to convert the Corps could be implemented in a number of ways, including

- requiring all officers to immediately convert to civilian employment;
- allowing all current officers to remain in place until retirement or other separation and requiring all new entrants to be civilian employees;
- allowing all officers with a specific number of years in the Corps to continue in the Corps until retirement or other separation; or
- retaining a permanent smaller Corps to provide medical services in areas that are difficult to staff with civilian employees.

The Congress may wish to refer to this information when considering the merits of converting the PHS Commissioned Corps to civilian status. If the Congress does in fact choose to convert the Corps, the following savings could result, depending upon the factors mentioned above.

To illustrate the savings that could be achieved through conversion to civilian status, CBO estimated that if officers with less than 15 years of service were converted to civilian status effective January 1, 1998, the following savings would apply.

**Appendix III**  
**Options for Deficit Reduction**

**Five-Year Savings**

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Discretionary spending					
Savings from the 1997 funding level adjusted for inflation					
Budget authority	15	23	26	28	31
Outlays	9	18	24	26	29

**Five-Year Savings**

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Direct spending (Retirement Fund)					
Agency contributions (Outlays)	18	27	30	34	37

**Five-Year Revenues**

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Change in revenues (Retirement Fund)					
Employee contributions	-1	-2	-2	-2	-3

Source: Congressional Budget Office.

**Related GAO Product**

Federal Personnel: Issues on the Need for the Public Health Service's Commissioned Corps (GAO/GGD-96-55, May 7, 1996).

**GAO Contact**

L. Nye Stevens, (202) 512-8676

Option:  
Unified Risk-Based  
Food Safety System

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (House)
Primary agency	Department of Agriculture
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Consumer and Occupational Health and Safety
Framework theme	Improve efficiency

GAO has issued 14 reports and testimonies on food safety issues. This work leads us to conclude that the federal system to ensure the safety and quality of the nation's food—at an annual cost of over \$1 billion a year—is inefficient and outdated and does not adequately protect the consumer against food-borne illness. GAO has reported that as many as 12 different agencies administering over 35 different laws oversee food safety. As a result, the current food safety system suffers from overlapping and duplicative inspections, poor coordination, and inefficient allocation of resources.

To improve the effectiveness and efficiency of the federal food safety system, GAO has recommended the consolidation of federal food safety agencies and activities. Specifically, GAO has recommended (1) consolidating food safety activities under a single, risk-based food safety agency with a uniform set of food safety laws, (2) establishing a Hazard Analysis and Critical Control Point system (HACCP) which emphasizes building safety into food production, and (3) placing responsibility for the system's implementation on the industry, with the government retaining an oversight role. Since December 1995, federal rules and regulations have been revised to move the seafood and meat and poultry industries under a HACCP-based system. The seafood industry is required to adopt and implement HACCP systems by the end of December 1997, and all meat and poultry plants are required to implement HACCP systems by 2000. While HACCP may eliminate the need for some food safety inspectors, resulting in government cost savings, no move has been made to consolidate these activities in a single food safety agency which would further reduce costs.

A 5-year estimate of savings from consolidating food inspection programs cannot be developed at this time. The amount of any savings will depend on how many programs are included, the degree and kind of reductions, and the level of federal involvement. In addition, the amount of savings will depend on the extent to which administrative cost savings are used to offset overall program costs.

---

**Related GAO Products**

Food Safety: Reducing the Threat of Foodborne Illnesses (GAO/T-RCED-96-185, May 23, 1996).

Food Safety: Information on Foodborne Illnesses (GAO/RCED-96-96, May 8, 1996).

Food Safety: New Initiatives Would Fundamentally Alter the Existing System (GAO/RCED-96-81, March 27, 1996).

Food Safety: Fundamental Changes Needed to Improve Monitoring of Unsafe Chemicals in Food (GAO/T-RCED-94-311, September 28, 1994).

Food Safety: Changes Needed to Minimize Unsafe Chemicals in Food (GAO/RCED-94-192, September 26, 1994).

Food Safety: A Unified, Risk-Based Food Safety System Needed (GAO/T-RCED-94-223, May 25, 1994).

Meat Safety: Inspectors' Ability to Detect Harmful Bacteria is Limited (GAO/T-RCED-94-228, May 24, 1994).

Food Safety: Risk-Based Inspections and Microbial Monitoring Needed for Meat and Poultry (GAO/RCED-94-110, May 19, 1994).

Food Safety: Risk-Based Inspections and Microbial Monitoring Needed for Meat and Poultry (GAO/T-RCED-94-189, April 19, 1994).

Meat Safety: Inspection System's Ability to Detect Harmful Bacteria Remain Limited (GAO/T-RCED-94-123, February 10, 1994).

Food Safety: A Unified Risk-Based System Needed to Enhance Food Safety (GAO/T-RCED-94-71, November 4, 1993).

---

**Appendix III**  
**Options for Deficit Reduction**

---

Food Safety: Building a Scientific, Risk-Based Meat and Poultry Inspection System (GAO/T-RCED-93-22, March 16, 1993).

Food Safety: Inspection of Domestic and Imported Meat Should Be Risk-Based (GAO/RCED-93-10, February 18, 1993).

Food Safety and Quality: Uniform, Risk-Based Inspection System Needed to Ensure Safe Food Supply (GAO/RCED-92-152, June 26, 1992).

---

GAO Contact

Robert A. Robinson, (202) 512-5138

---

## **570 Medicare**

- Teaching Hospitals' Medicare Payments
- Medicare Program Safeguards
- Medicare Payments for High Technology Procedures
- Medicare Rate-Setting Methods for HMOs
- Medicare Incentive Payments in Health Care Shortage Areas

## Option: Teaching Hospitals' Medicare Payments

Authorizing committees	Finance (Senate) Commerce (House) Ways and Means (House)
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Department of Health and Human Services
Account	Federal Hospital Insurance Trust Fund Account (20-8005)
Spending type	Direct
Budget subfunction	Medicare
Framework theme	Improve efficiency

Medicare's Prospective Payment System pays hospitals with graduate medical education programs at rates higher than those other hospitals receive for treating the same conditions. The higher payments are to compensate for the higher costs teaching hospitals incur, which are thought to be due to such factors as increased diagnostic testing, increased number of procedures performed, and higher staffing ratios. The teaching adjustment is based on the ratio of interns and residents per bed and currently is set at a 7.65-percent increase in payments for each 0.1 increment in the ratio.

In 1989, GAO found that the present adjustment factor was too high because it did not explicitly consider all relevant teaching hospital costs and did not accurately measure all cost factors. Based on its analysis, GAO found that the adjustment should be no higher than 6.26 percent and could be as low as 3.73 percent. The 6.26-percent rate would better measure factors explicitly recognized by the current formula. The 3.73-percent rate expands on the current formula to reflect additional factors that affect teaching hospital costs.

CBO's analysis of Medicare's indirect medical education payments discusses rates of 6 percent and 3 percent. Savings for those rates are reflected in the following table.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>
Option: Reduce to 6-percent adjustment factor					
Outlays	910	970	1,040	1,120	1,120
Option: Reduce to 3-percent adjustment factor					
Outlays	2,560	2,740	2,920	3,150	3,400

Source: Congressional Budget Office.

---

**Related GAO Product**

**Medicare: Indirect Medical Education Payments Are Too High**  
(GAO/HRD-89-33, January 5, 1989).

---

**GAO Contact**

**William J. Scanlon, (202) 512-7114**

## Option: Medicare Program Safeguards

Authorizing committees	Finance (Senate) Commerce (House) Ways and Means (House)
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Department of Health and Human Services
Accounts	Federal Hospital Insurance Trust Fund (20-8005) Federal Supplementary Medical Insurance Trust Fund (20-8004) Program Management (75-0511)
Spending type	Discretionary/Direct
Budget subfunctions	Health and Medicare
Framework theme	Improve efficiency

Medicare receives over 800 million claims for reimbursement each year. When Medicare pays contractors to process claims, one of the contractors' responsibilities is to ensure that Medicare only pays claims for covered services that are medically necessary and appropriate and for which Medicare is the primary payer. Such activities are referred to as program safeguards.

Recently GAO reported that the funding contractors receive to review each claim has declined since 1989 by over 20 percent. In response, contractors apply fewer or less stringent payment controls, and claims are paid that otherwise would not be. Historically, payment safeguards have returned \$10 in savings for each dollar expended on them. GAO believes additional program safeguard funding is necessary to better protect the program against erroneous payments.

The Health Insurance Portability and Accountability Act of 1996 increased funding to Medicare for program safeguards—a substantial reversal of the prolonged decline in funding per claim for those activities. CBO estimated a net savings of over \$3 billion from increased resources—for Medicare as well as for the HHS Office of Inspector General and Federal Bureau of Investigations—to identify and pursue individuals or entities that defraud federal health care programs.<sup>25</sup> However, the recently enacted increase in

<sup>25</sup>In prior years, CBO did not score increases in such funding because the proposals violated rules (established in the conference report on the Omnibus Budget Reconciliation Act of 1993) that preclude attributing changes in mandatory spending to changes in discretionary funding for program administration. That prohibition did not apply to this legislation, however, because it establishes long-term mandatory appropriations to cover all of the enforcement activities proposed.

---

Medicare program safeguard funding alone—8.5 percent, or \$34 million, for fiscal year 1997—must be spread over a volume of claims rising in recent years 5 to 8 percent annually. Coupled with inflation, this growth in the number of claims will erode part of the effect of the funding increase enacted for future years. While the Congress has provided safeguard funding substantially above 1996 levels, fiscal year 2002 funding, adjusted for projected inflation and claims growth, is projected to be about 10 percent below the 1991-96 average. Consequently, GAO believes that the potential exists for further funding increases to yield net savings.

---

**Related GAO Products**

Medicare (GAO/HR-97-10, February 1997).

Funding Anti-Fraud and Abuse Activities (GAO/HEHS-95-263R, September 29, 1995).

Medicare: High Spending Growth Calls for Aggressive Action (GAO/T-HEHS-95-75, February 6, 1995).

Medicare Claims (GAO/HR-95-8, February 1995).

Medicare: Adequate Funding and Better Oversight Needed to Protect Benefit Dollars (GAO/T-HRD-94-59, November 12, 1993).

Medicare: Further Changes Needed to Reduce Program and Beneficiary Costs (GAO/HRD-91-67, May 15, 1991).

Medicare: Cutting Payment Safeguards Will Increase Program Costs (GAO/T-HRD-89-06, February 28, 1989).

Medicare and Medicaid: Budget Issues (GAO/T-HRD-87-1, January 29, 1987).

---

**GAO Contact**

William J. Scanlon, (202) 512-7114

## Option: Medicare Payments for High Technology Procedures

Authorizing committees	Finance (Senate) Commerce (House) Ways and Means (House)
Primary agency	Department of Health and Human Services
Account	Federal Supplementary Medical Insurance Trust Fund (20-8004)
Spending type	Direct
Budget subfunction	Medicare
Framework theme	Improve efficiency

When new medical technologies first come into use, providers' unit costs often are high because of large capital expenditures and low initial utilization rates. When Medicare sets its payment rates for these new technologies, the rates typically are based on the high initial unit costs. Over time, providers' unit costs decline as equipment improves, utilization increases, and experience with the technology results in efficiencies. However, Medicare does not have a process for routinely and systematically assessing these factors and adjusting its fee schedule payment rates to reflect the declining unit costs.

The Congress has reacted to the identification of specific overpaid procedures and services by legislatively reducing rates. For example, payments have been reduced for overpriced surgeries, selected items of durable medical equipment, magnetic resonance imaging (MRI) scans, and intraocular lenses.

The Health Care Financing Administration (HCFA) has three projects underway which may help bring some Medicare payment rates more in line with actual costs and market prices. First, by January 1, 1998, HCFA expects to implement revisions to the Medicare Fee Schedule that will take into account the actual cost of staff, equipment, and supplies associated with medical procedures, rather than past charges submitted for those procedures.

Second, in October 1995, HCFA initiated a project to review 100 items of medical equipment and supplies to identify and address any excessive Medicare payments. Under current law, this review requires the use of a lengthy "inherent reasonableness" process, and the project is expected to take at least 2 years.

---

Third, a HCFA demonstration project will evaluate a competitive bidding process to set Medicare payment levels for some medical equipment and supplies. Delays have postponed project implementation at the first of three proposed sites until August 1997.

These projects may eventually bring some Medicare payment rates more in line with actual costs and market rates, but none of the three projects specifically targets expensive, evolving technologies. GAO believes significant program savings would result from an ongoing, systematic process for evaluating the reasonableness of Medicare payment rates for new medical technologies as those technologies mature.

Savings have not been estimated because revising the Medicare Fee Schedule potentially encompasses all procedures, and any savings would depend on the particular technologies for which Medicare payment rates are reduced.

---

## Related GAO Products

Medicare Spending: Modern Management Strategies Needed to Curb Billions in Unnecessary Payments (GAO/HEHS-95-210, September 19, 1995).

Medicare: High Spending Growth Calls for Aggressive Action (GAO/T-HEHS-95-75, February 6, 1995).

Medicare: Excessive Payments Support the Proliferation of Costly Technology (GAO/HRD-92-59, May 27, 1992).

Medicare: Further Changes Needed to Reduce Program and Beneficiary Costs (GAO/HRD-91-67, May 15, 1991).

---

## GAO Contact

William J. Scanlon, (202) 512-7114

## Option: Medicare Rate-Setting Methods for HMOs

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of Health and Human Services
Account	Federal Supplementary Medical Insurance Trust Fund (20-8004)
Spending type	Discretionary/Direct
Budget subfunction	Medicare
Framework theme	Improve efficiency

Hoping to take advantage of the potential cost savings associated with health maintenance organizations (HMO), the Congress created the Medicare risk contract program. Under this program, Medicare pays HMOs a fixed amount (or capitation rate) for each beneficiary enrolled. Capitation rates are set at 95 percent of the estimated average cost of beneficiaries in Medicare's fee-for-service program. These rates are adjusted based on enrollees' demographic traits: age, sex, Medicaid eligibility, working status, and whether the enrollee is in a nursing home or other institution. These adjustments, known as "risk adjustments," are designed to reduce HMOs' ability to benefit from "favorable selection"—the tendency of HMO enrollees to be healthier and less costly to care for than fee-for-service beneficiaries.

The risk contract program has not achieved its goal of reducing Medicare costs for two reasons. First, the Health Care Financing Administration's (HCFA) risk adjustment methodology has proved insufficient to prevent HMOs from benefiting from favorable selection. Consequently, Medicare has paid HMOs more than it would have if HMO enrollees had received fee-for-service care because the HMO enrollees are healthier and less costly to treat—by more than 5 percent—than comparable fee-for-service beneficiaries. GAO has estimated that, for counties containing 36 percent of risk contract HMO enrollment, Medicare excess payments to HMOs in 1995 were about \$1 billion. Excess payments are likely to increase as enrollment rates in the risk contract program continue to rise. Second, in many areas, Medicare's 5-percent "discount" from fee-for-service costs is too modest. By failing to reflect local market conditions and greater HMO efficiencies, the capitation rate causes Medicare to overpay HMOs.

GAO has suggested that Medicare address the problem of excess payments to HMOs by pursuing a number of strategies, including fostering price competition among HMOs through competitive bidding, introducing more

---

accurate risk adjusters, and modifying the current formula for HMO rates to reflect market competition and HMOs' local health care costs. These strategies should be pursued concurrently since barriers exist to the development and implementation of each strategy, and any one strategy may not emerge as feasible or best for all areas.

A 5-year estimate of savings from these strategies cannot be made at this time. Available data are insufficient to permit determining the effect of many proposed alternate payment strategies on Medicare spending and on HMO participation in the risk contract program.

---

**Related GAO Products**

Medicare HMOs: HCFA Could Promptly Reduce Excess Payments by Improving Accuracy of County Payment Rates (GAO/T-HEHS-97-78, February 25, 1997).

Medicare Managed Care: Growing Enrollment Adds Urgency to Fixing HMO Payment Problem (GAO/HEHS-96-21, November 8, 1995).

Medicare: Changes to HMO Rate Setting Method Are Needed to Reduce Program Costs (GAO/HEHS-94-119, September 2, 1994).

---

**GAO Contact**

William J. Scanlon, (202) 512-7114

## Option: Medicare Incentive Payments in Health Care Shortage Areas

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of Health and Human Services
Account	Federal Supplementary Insurance Trust Fund (20-8004)
Spending type	Direct
Budget subfunction	Medicare
Framework theme	Reassess objectives

The Medicare Incentive Payment (MIP) program was established in 1987 amid concerns that low Medicare reimbursement rates for primary care services caused access problems for Medicare beneficiaries in underserved areas. To encourage physicians to locate and serve Medicare beneficiaries in such areas, physicians receive an additional 10-percent payment from Medicare for the services they deliver in urban and rural Health Professional Shortage Areas (HPSA) designated by the Department of Health and Human Services (HHS). In 1995, a HCFA representative stated this program provided about \$107 million in bonuses to physicians in HPSAs, an amount 16 percent higher than the previous year. Our work leads us to question the appropriateness of the program for the following reasons.

- The premise on which the program was created may no longer be valid because the basis for Medicare reimbursement has changed since 1987. In fact, recent surveys of Medicare population show that neither provider shortages nor low Medicare reimbursement rates were causing wide spread access problems.
- The basis on which MIP funds are targeted is inadequate to assure that they are directed to improve access to care. While nearly two-thirds of the U.S. counties have HPSAs, we found that at least one-third of these designations are outdated or erroneous. Furthermore, the HPSA designation system itself is not an appropriate vehicle to target MIP funds as it does not lend itself to directing program resources to those providing primary care services to the medically underserved. HHS said they do not have an alternative system that would effectively allocate funding under this program.
- Evidence suggests that the MIP program did not play a significant role in physician decisions to practice in underserved areas. For example, the median payment to urban and rural physicians in 1992 was about \$1,239 and \$869, respectively—an amount too low, according to an HHS Inspector

---

**Appendix III**  
**Options for Deficit Reduction**

---

---

General's report, to have a significant effect on physicians' practice location decisions.

The savings estimate that follows assumes the Congress eliminates funding for the Medicare Incentive Payment program beginning in fiscal year 1998.

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level adjusted for inflation					
Budget authority	40	70	80	90	100
Outlays	40	70	80	90	100

Source: Congressional Budget Office.

---

**Related GAO Product**

Health Care Shortage Areas: Designations Not a Useful Tool for Directing Resources to the Underserved (GAO/HEHS-95-200, September 8, 1995).

---

**GAO Contact**

Bernice Steinhardt, (202) 512-7119

---

## **600 Income Security**

- Fees for Non-Temporary Assistance to Needy Families (TANF) Child Support Enforcement Services
- Automated Child Support Enforcement Systems
- Funding for State Automated Welfare Systems
- Benefits for Retirement Eligible FECA Beneficiaries
- Workers' Compensation Cases Involving Third Parties
- Workers' Compensation Payments
- Resource Transfers to Qualify for SSI
- Return-to-Work Strategies for People with Disabilities
- Reporting of Federal Employee Payroll Data to State Unemployment Insurance Programs

**Option:  
Fees for  
Non-Temporary  
Assistance to Needy  
Families (TANF)  
Child Support  
Enforcement Services**

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of Health and Human Services
Account	Family Support Payments to States (75-1501)
Spending type	Direct
Budget subfunction	Other Income Security
Framework theme	Redefine beneficiaries

The purpose of the Child Support Enforcement Program is to strengthen state and local efforts to obtain child support for both families eligible for Temporary Assistance to Needy Families (TANF) and non-TANF families. The services provided to clients include locating noncustodial parents, establishing paternity, and collecting ongoing and delinquent child support payments. From fiscal year 1984 through 1995, non-TANF caseloads and costs have risen about 390 percent and 810 percent, respectively. States have exercised their discretion to charge only minimal application and service fees and, thus, are doing little to recover the federal government's 66-percent share of program costs. In fiscal year 1995, for example, state fee practices returned \$33 million of the \$1.4 billion spent to provide non-TANF services.

Since 1992, GAO has reported on opportunities to defray some of the costs of child support programs. Based on this work, GAO believes that mandatory application fees should be dropped and that states should charge a minimum percentage service fee on successful collections for non-TANF families. Application fees are administratively burdensome, and a service fee would ensure that families are charged only when the service has been successfully performed.

If the Congress wishes to recover all of the administrative costs of the program, states could charge a service fee of about 18 percent on collections for non-TANF families. The following savings assume states would be able to implement this option beginning October 1, 1997.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Savings**

Dollars in millions

	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>
Savings from the 1997 funding level adjusted for inflation					
Budget authority	755	835	915	1,000	1,080
Outlays	755	835	915	1,000	1,080

Source: Congressional Budget Office.

---

**Related GAO Products**

Child Support Enforcement: Early Results on Comparability of Privatized and Public Offices (GAO/HEHS-97-4, December 16, 1996).

Child Support Enforcement: Reorienting Management Toward Achieving Better Program Results (GAO/HEHS/GGD-97-14, October 25, 1996).

Child Support Enforcement: States' Experience with Private Agencies' Collection of Support Payments (GAO/HEHS-97-11, October 23, 1996).

Child Support Enforcement: States and Localities Move to Privatized Services (GAO/HEHS-96-43FS, November 20, 1995).

Child Support Enforcement: Opportunity to Reduce Federal and State Costs (GAO/T-HEHS-95-181, June 13, 1995).

---

**GAO Contact**

Jane L. Ross, (202) 512-7215

## Option: Automated Child Support Enforcement Systems

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of Health and Human Services
Account	Family Support Payments to States (75-1501)
Spending type	Direct
Budget subfunction	Other Income Security
Framework theme	Improve efficiency

The Department of Health and Human Services' (HHS) Office of Child Support Enforcement (OCSE) oversees states' efforts to develop automated systems for the Child Support Enforcement Program. Established for both welfare and non-welfare clients with children, this program is directed at locating parents not supporting their children, establishing paternity, obtaining court orders for the amounts of money to be provided, and collecting these amounts from noncustodial parents. Achievement of Child Support Enforcement Program goals depends in part on the effective planning, design, and operation of automated systems. The federal government is providing enhanced funding to develop these automated child support enforcement systems by paying up to 90 percent of states' development costs. The states have spent about \$2.7 billion to develop these systems, including over \$2 billion from the federal government.

The 90-percent funding participation rate was initially discontinued at the end of fiscal year 1995, the congressionally mandated date for the systems to be certified and operational. However, the Congress subsequently extended the deadline for these systems to the end of fiscal year 1997. Therefore, the 90-percent funding participation rate was continued for states that had an approved funding plan for systems development at the end of fiscal year 1995. In addition, the federal government will continue to reimburse states' costs to operate these systems at the 66-percent rate established for administrative expenses. Finally, The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193) authorized \$400 million (with an 80-percent federal funding participation rate) for the states to meet new systems requirements under this law. The 66-percent federal funding participation rate was continued for systems operation and administrative expenses.

HHS estimates that the operation of these state automated systems will cost about \$213 million in fiscal year 1997, including about \$140 million in

federal funds. The Congress could choose to reduce the federal funding participation rate for operation of the automated child support enforcement systems from 66 percent to the 50-percent rate now common for such costs in welfare programs. CBO estimates that doing so would produce the savings shown in the following table.

Five-Year Savings

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level adjusted for inflation					
Budget authority	65	70	80	85	95
Outlays	65	70	80	85	95

Source: Congressional Budget Office.

Related GAO Products

Child Support Enforcement: Timely Action Needed to Correct System Development Problems (GAO/IMTEC-92-46, August 13, 1992).

Child Support Enforcement: Opportunity to Defray Burgeoning Federal and State Non-AFDC Costs (GAO/HRD-92-91, June 5, 1992).

GAO Contact

Joel C. Willemsen, (202) 512-6253

## Option: Funding for State Automated Welfare Systems

Authorizing committees	Agriculture (Senate and House) Finance (Senate) Ways and Means (House)
Appropriations subcommittees	Labor, Health and Human Services, Education and Related Agencies (Senate) Agriculture (House)
Primary agencies	Department of Agriculture Department of Health and Human Services
Account	Multiple
Spending type	Discretionary/Direct
Budget subfunction	Food and Nutrition; Other Income Security
Framework theme	Improve efficiency

We reported that, from 1984 to 1992, federal agencies contributed over \$6.8 billion, and \$1.8 billion prior to 1984, to help fund development and operation of automated information systems for welfare and welfare-related programs. These programs included: Aid to Families with Dependent Children, Medicaid, Food Stamps, Child Support Enforcement, Job Opportunities and Basic Skills Training, Child Care, and Child Welfare Services and Foster Care/Adoption Assistance. The Department of Health and Human Services (HHS) administers all of these programs except Food Stamps, which the Department of Agriculture (USDA) administers. As part of their program administration responsibilities, these departments are to monitor the development of automated information systems to ensure that the systems meet federal requirements.

We reported that ineffective oversight of state-developed systems had led to millions of dollars being spent on systems that did not work and/or did not meet federal requirements. For example, one state spent \$51 million on a system that could not be implemented as planned because important user requirements were not incorporated into its original design. Moreover, even though millions of dollars have been spent on state-developed systems, the benefits of these systems in reducing administrative costs and mistakes have not been determined.

Many states operate separate systems for separate programs even though the welfare clients the programs serve are often the same. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, (P.L. 104-193) changed the nation's welfare system into one that requires work in exchange for time-limited assistance. This law affects many existing programs that have traditionally operated individually, but now must

---

function together to achieve the legislative mandate. The federal government continues to provide support for the operation of these automated systems. However, states now have more responsibility for funding these welfare programs as well as the automated systems needed to allow them to function. In addition, many states are now in the process of upgrading or replacing existing systems or developing or planning to develop new systems, which they estimate could cost at least \$2.2 billion from 1993 to 1999.

Savings could be achieved and the usefulness of state automated systems improved if problems were identified and corrected early in the system development process. In addition, more of these systems could be integrated, with the federal government providing model systems to further reduce development costs. If it chooses, the Congress could slow HHS' and USDA's development funding to reflect the anticipated savings resulting from early detection of problems in the system development process, greater system integration, and greater use of models to guide state development efforts. However, a savings estimate for this option cannot be developed at this time because yearly data on states' future spending for automated systems development in the affected welfare and welfare-related programs are not available.

---

Related GAO Products

Automated Welfare Systems: Historical Costs and Projections  
(GAO/AIMD-94-52FS, February 25, 1994).

Welfare Programs: Ineffective Federal Oversight Permits Costly Automated System Problems (GAO/IMTEC-92-29, May 27, 1992).

---

GAO Contact

Joel C. Willemssen, (202) 512-6253

Option:  
Benefits for  
Retirement Eligible  
FECA Beneficiaries

Authorizing committees	Labor and Human Resources (Senate) Economic and Educational Opportunity (House)
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Department of Labor
Account	Multiple
Spending type	Direct/Discretionary
Budget subfunction	Other Income Security
Framework theme	Reassess objectives

Federal workers who continue to be disabled as a result of a work-related injury receive tax-free workers' compensation benefits under the Federal Employees' Compensation Act (FECA). These benefits could continue for life and would generally be greater than amounts these workers would receive as retirement benefits. FECA benefits are 75 percent of salary for a disabled employee with a dependent; Civil Service Retirement System benefits for a 55-year old employee with 30 years of service are 56 percent of salary. We reported that 60 percent of the approximately 44,000 long-term FECA beneficiaries were at least age 55, the age at which some federal employees are eligible for optional retirement with unreduced retirement benefits. Proponents for changing FECA benefits for older beneficiaries argue that an inequity is created between federal workers who retire normally and those who, in effect, "retire" on FECA benefits. Opponents of such a change argue that reducing benefits would break the implicit promise that injured workers have exchanged their right to tort claims for a given level of future benefits.

We identified two prior proposals for reducing FECA benefits to those who become eligible for retirement. One would convert compensation benefits received by retirement-eligible disabled workers to retirement benefits. However, this approach raises complex issues related to the tax-free nature of workers' compensation benefits and to the individual's entitlement to retirement benefits. The second proposal would convert FECA benefits to a newly established FECA annuity, thus avoiding the complexity of shifting from one benefit program to another.

To reduce benefits for retirement-eligible FECA beneficiaries, the Congress could consider converting from the current FECA benefit structure to a FECA annuity. The following savings estimate assumes that such an annuity

**Appendix III**  
**Options for Deficit Reduction**

would equal two-thirds of the previously provided FECA compensation benefit and the annuity would begin following the disabled individual's eligibility for retirement benefits. The CBO estimate assumes that changes in benefits would be made prospectively. Additional savings could be achieved if changes were made to affect individuals who were already receiving FECA benefits.

**Five-Year Savings**

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Direct spending					
Savings from the 1997 funding level adjusted for inflation					
Budget authority	4	8	9	9	9
Outlays	4	8	9	9	9

**Five-Year Savings**

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Discretionary spending					
Savings from the 1997 funding level					
Budget authority	1	3	9	15	22
Outlays	1	3	9	15	22

Source: Congressional Budget Office.

**Related GAO Product**

**Federal Employees' Compensation Act: Issues Associated With Changing Benefits for Older Beneficiaries** (GAO/GGD-96-138BR, August 14, 1996).

**GAO Contact**

L. Nye Stevens, (202) 512-8676

**Option:  
Workers'  
Compensation Cases  
Involving Third  
Parties**

Authorizing committees	Labor and Human Resources (Senate) Economic and Educational Opportunity (House)
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Department of Labor
Account	Multiple
Spending type	Discretionary
Budget subfunction	Other Income Security
Framework theme	Improve efficiency

The Federal Employees' Compensation Act (FECA) authorizes federal agencies to continue paying employees their regular salaries for up to 45 days when they are absent from work due to work-related traumatic injuries. In cases in which third parties are responsible for employees' on-the-job injuries (e.g., dog bites or automobile-related injuries), the Department of Labor may require that employees pursue collection actions against these parties. However, based on current interpretations of FECA by the Employees' Compensation Appeals Board and a federal appeals court, the federal government has no legal basis to obtain refunds from third parties for the first 45 days of absence from work (called the continuation-of-pay (COP) period). Recoveries from third parties continue to be allowed for payments of compensation benefits following the COP period and for medical benefits.

Based on the current interpretation of FECA, employees can receive regular salary payments from their employing agencies and reimbursements from third parties—in effect, a double recovery of income for their first 45 days of absence from work due to an injury for which a third party was responsible. We recommended that the Congress amend FECA to expressly provide for refunds of amounts paid as COP when employees receive third party recoveries. CBO estimates that the following savings could be achieved if the Congress redefined COP so that it could be included in amounts employees are required to reimburse the government when they recover damages from third parties.

**Appendix III**  
**Options for Deficit Reduction**

**Five-Year Savings**

Dollars in millions

	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>
Savings from the 1997 funding level					
Budget authority	1	1	1	1	1
Outlays	1	1	1	1	1
Savings from the 1997 funding level adjusted for inflation					
Budget authority	1	1	1	1	1
Outlays	1	1	1	1	1

Source: Congressional Budget Office.

**Related GAO Products**

**Federal Employees' Compensation Act: Redefining Continuation of Pay Could Result in Additional Refunds to the Government** (GAO/GGD-95-135, June 8, 1995).

**Workers' Compensation: Selected Comparisons of Federal and State Laws** (GAO/GGD-96-76, April 3, 1996).

**GAO Contact**

L. Nye Stevens, (202) 512-8676

Option:  
Workers'  
Compensation  
Payments

Authorizing committees	Labor and Human Resources (Senate) Economic and Educational Opportunity (House)
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Department of Labor
Account	Multiple
Spending type	Discretionary/Direct
Budget subfunction	Other Income Security
Framework theme	Reassess objectives

Federal workers who experience job-related injuries are entitled to workers' compensation benefits authorized under the Federal Employees' Compensation Act (FECA). Our review identified three major ways in which FECA differed from other federal and state workers' compensation laws and which resulted in relatively greater benefits under FECA.

First, FECA authorizes maximum weekly benefit amounts that are greater than those authorized by other federal and state workers' compensation laws. As of January 1, 1995, maximum authorized weekly FECA benefits were equal to \$1,274, 75 percent of the base salary of a GS-15, step 10. The maximum weekly benefit authorized under the other workers' compensation laws was \$817 in Iowa. FECA also authorizes additional benefits for one or more dependents equal to 8.33 percent of salary. Only seven states authorize additional benefits for dependents, ranging from \$5 to \$10 per week per dependent, with total benefits not exceeding maximum authorized benefit amounts. Finally, FECA provides eligible workers who suffer traumatic injuries with their regular salary for a period not to exceed 45 days. Compensation benefits for wage loss begin on the 48th day, after a 3-day waiting period. All other federal and state workers' compensation laws provide for a 3- to 7-day waiting period following the injury before paying compensation benefits. In either case, if employees continue to be out of work for extended periods of time ranging from 5 to 42 days, depending on the jurisdiction, retroactive benefits to cover the waiting period would be paid.

Reducing FECA's authorized maximum weekly benefit to make it comparable to other compensation laws would have little effect on compensation costs because very few federal workers receive maximum benefits. However, CBO estimates (1) eliminating augmented compensation

**Appendix III**  
**Options for Deficit Reduction**

benefits for dependents and (2) placing a 5-day waiting period immediately following the injury, and before the continuation of pay period, would produce savings, as shown in the table below.

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Discretionary spending					
Savings from the 1997 funding level					
Option: Eliminate augmented dependent compensation benefits					
Budget authority	2	2	7	8	8
Outlays	2	2	7	8	8
Option: 5-day waiting period					
Budget authority	11	11	12	12	12
Outlays	11	11	12	12	12

Source: Congressional Budget Office.

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Direct spending					
Savings from the 1997 funding level adjusted for inflation					
Option: Eliminate augmented dependent compensation benefits					
Budget authority	5	5	*	*	*
Outlays	5	5	*	*	*

\*Savings of less than \$500,000

Source: Congressional Budget Office.

**Related GAO Product**

**Workers' Compensation: Selected Comparisons of Federal and State Laws**  
 (GAO/GGD-96-76, April 3, 1996).

**GAO Contact**

L. Nye Stevens, (202) 512-8676

## Option: Resource Transfers to Qualify for SSI

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Social Security Administration
Account	Supplemental Security Income Program (28-0406)
Spending type	Direct/Discretionary
Budget subfunction	Other Income Security
Framework theme	Redefine beneficiaries

The Supplemental Security Income (SSI) program is the country's largest cash assistance program for the poor and one of the fastest growing entitlement programs. Program costs grew 20 percent annually from 1991 through 1994. In 1995, more than 6 million SSI recipients received nearly \$25 billion in federal and state benefits. Recent growth in the SSI program has increased congressional interest in ensuring that the SSI program focuses on individuals who have no resources with which to meet their needs and that to the extent possible, individuals rely on their own resources before turning to the SSI program for support.

Currently, the law does not prohibit people from transferring resources to qualify for SSI benefits. In a recent review, we found that the 3,505 SSI recipients who transferred resources between 1990 and 1994 transferred cash, houses, land, and other items valued at an estimated \$74 million. However, we noted that the total amount of resources transferred was likely to be larger than our estimate because the Social Security Administration (SSA) is not required to verify the accuracy of resource transfer information, which is self-reported by individuals.

Without a transfer-of-resource restriction, the 3,505 SSI recipients who transferred resources to qualify for benefits would receive about \$7.9 million in SSI benefits in the 24 months after they transferred resources. Although administrative costs may be associated with SSA's implementing a transfer-of-resource restriction, in our analysis we estimated that from 1990 through December 1995, \$14.6 million in program expenditures could have been saved with an SSI transfer-of-resource restriction similar to Medicaid's long-term care provision. In addition, an SSI transfer-of-resource restriction could increase the public's confidence in the program's integrity by ensuring that individuals use their own resources for self-support before receiving SSI.

---

**Appendix III**  
**Options for Deficit Reduction**

---

In light of the potential for reduced program expenditures and increased program integrity, the Congress may wish to consider an SSI transfer-of-resource restriction. The restriction could be calculated in a way that takes into account the value of the resource transferred so that individuals transferring more valuable resources would be ineligible for SSI benefits for longer periods of time than those who transfer less valuable resources. The CBO estimate that follows is based on this assumption.

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level adjusted for inflation					
Budget authority	a	2	4	6	8
Outlays	a	2	4	6	8
Administrative costs (discretionary)	-1	-1	-1	-1	-1

<sup>a</sup>Less than \$1 million

Source: Congressional Budget Office.

---

**Related GAO Product**

Supplemental Security Income: Some Recipients Transfer Valuable Resources to Qualify for Benefits (GAO/HEHS-96-79, April 30, 1996).

---

**GAO Contact**

Jane L. Ross, (202) 512-7215

Option:  
Return-to-Work  
Strategies for People  
With Disabilities

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Social Security Administration
Account	Federal Disability Insurance Trust Fund (20-8007) Supplemental Security Income Program (20-0406)
Spending type	Direct
Budget subfunction	Multiple
Framework theme	Reassess objectives

The Social Security Administration (SSA) operates the Disability Insurance (DI) and Supplemental Security Income (SSI) programs—the nation’s two largest federal programs providing cash benefits to people with disabilities. SSA data show that between 1985 and 1994, the number of working-age people in these disability programs increased 59 percent from 4 million to 6.3 million. Such growth has raised concerns that are compounded by the fact that less than half of 1 percent of DI beneficiaries ever leave the disability rolls by returning to work.

We found that return-to-work strategies and practices may hold potential for improving federal disability programs by helping people with disabilities return to productive activity in the workplace and, at the same time, reducing benefit payments. Our analysis of practices advocated and implemented by the private sector in the United States and by social insurance programs in Germany and Sweden revealed three common strategies in the design of their return-to-work programs: intervene as soon as possible after an actual or potentially disabling event to promote and facilitate return to work, identify and provide necessary return-to-work assistance and manage cases to achieve return-to-work goals, and structure cash and medical benefits to encourage people with disabilities to return to work.

In line with placing greater emphasis on return to work, the Congress could direct the Commissioner of SSA to develop a comprehensive return-to-work strategy that integrates, as appropriate, earlier intervention, earlier identification and provision of necessary return-to-work assistance for applicants and beneficiaries, and changes the structure of cash and medical benefits. The Commissioner should also identify legislative changes needed to implement such a change. We believe that substantial savings could be achieved if SSA were to develop such a program.

---

However, such savings would be offset by program costs and any net savings would depend on the program's participation rate.

---

Related GAO Products

People With Disabilities: Federal Programs Could Work Together More Efficiently to Promote Employment (GAO/HEHS-96-126, September 3, 1996).

SSA Disability: Return-to-Work Strategies From Other Systems May Improve Federal Programs (GAO/HEHS-96-133, July 11, 1996).

SSA Disability: Program Redesign Necessary to Encourage Return to Work (GAO/HEHS-96-62, April 24, 1996).

---

GAO Contact

Jane L. Ross, (202) 512-7215

## Option: Reporting of Federal Employee Payroll Data to State Unemployment Insurance Programs

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of Labor
Account	State Unemployment Insurance and Employment Service Operations (16-0179)
Spending type	Direct
Budget subfunction	Multiple
Framework theme	Redefine beneficiaries

The Congress established the national unemployment insurance (UI) system in the 1930s to provide partial income assistance to many temporarily unemployed workers with substantial work histories. Today, UI is the major federal program providing assistance to the unemployed. Many workers covered by the UI system are also among the 1.1 million personnel currently participating in the National Reserve forces (Army National Guard, Army Reserve, Naval Reserve, Marine Corps Reserve, Air National Guard, Air Force Reserve, and the Coast Guard Reserve).

Most UI claimants are required to report the income they receive while in the Reserves so that state UI programs can reduce their benefits accordingly. Our analysis of benefit and Reserve data from seven states shows that some Reserve personnel are receiving improper benefit payments from state UI programs. In the seven states in our analysis, we estimate that UI claimants who were active participants in the Reserves failed to report over \$7 million in Reserve income in fiscal year 1994. This led to UI benefit overpayments of approximately \$3.6 million, of which federal trust fund losses were about \$1.2 million. We expect that the federal and state trust fund losses from all UI programs are much greater because the seven states we reviewed account for only 27 percent of all reservists.

State officials cited various reasons why claimants may not be reporting their Reserve income while receiving UI benefits. According to state officials, the claimants may not understand their reporting responsibilities, are often not specifically informed of these responsibilities, and may have incentives not to report all Reserve income—incentives that are amplified by the states' limited ability to detect nonreporting.

To detect unreported Reserve income, the most frequently suggested alternative by federal and state officials would be to require the

---

**Appendix III**  
**Options for Deficit Reduction**

---

Department of Defense (DOD) to report Reserve payroll and personnel data to states on a quarterly basis, as private-sector employers are required to do, to permit verification of claimant income on a regular basis. The following CBO estimate assumes that such reporting would result in a reduction of overpayments of \$44 million over 5 years. It is noted that the nonreporting of claimant income appears to be a broader problem involving all UI claimants who were former federal civilian and military employees, rather than just those participating in the Reserves. Officials from many of the state programs we analyzed reported general difficulties in monitoring reported income from claimants who were former federal employees.

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from 1997 funding level adjusted for inflation					
Budget authority	11	12	12	12	12
Outlays	11	12	12	12	12
Reduction in receipts	0	-1	-3	-5	-7
Net effect on deficit	11	11	9	7	5

Note: UI trust fund receipts are dependent on prior year benefit outlays. CBO estimates that, in addition to the savings, this option would have the effect of reducing trust fund receipts in the out years.

Source: Congressional Budget Office.

---

**Related GAO Product**

Unemployment Insurance: Millions in Benefits Overpaid to Military Reservists (GAO/HEHS-96-101, August 5, 1996).

---

**GAO Contact**

Carlotta C. Joyner, (202) 512-7014

---

**650 Social Security** • The PASS Work Incentive Program

## Option: The PASS Work Incentive Program

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Social Security Administration
Account	Federal Disability Insurance Trust Fund (20-8007)
Spending type	Direct
Budget subfunction	Social Security
Framework theme	Redefine beneficiaries

The Social Security Administration's (SSA) plan for achieving self-support (PASS) work incentive program was established in 1972 as part of the Supplemental Security Income (SSI) program to help disability benefit recipients return to gainful employment. PASS program applicants submit plans outlining their employment goals, which are reviewed by staff in 1 of the more than 1,300 SSA field offices that administer SSI. An approved PASS plan allows disabled individuals to exclude any non-SSI income or resources they have, including Disability Insurance (DI) benefits, from the determination of the amount of their SSI benefits.

While the PASS program is currently small—only about 10,300 individuals participated in December 1994—the number of PASSES has increased more than fivefold between 1990 and 1994 as awareness of the provision has grown. Millions more DI and SSI beneficiaries are eligible to participate. About 40 percent of PASS program participants, largely DI beneficiaries, would not be eligible for federal SSI payments if some of their income was not disregarded under PASS. Additionally, nearly all DI beneficiaries who had participated in the PASS program received their full benefits in May 1995. We estimate the cost of additional SSI payments to all program participants to be \$2.6 million for January 1995, or about \$30 million annually.

We found that SSA has not translated the Congress' broad goals for the PASS work incentive into a coherent program design, provided adequate criteria or guidance to field offices charged with administering the program, or adequately addressed internal control weaknesses that have left the program vulnerable to abuse. The Congress may wish to consider whether individuals otherwise financially ineligible for SSI because their DI benefits or other income exceed the eligibility threshold should continue to gain eligibility for SSI through the PASS program. Also, SSA needs to make major improvements in the management of the program, including clarifying the

---

**Appendix III**  
**Options for Deficit Reduction**

---

program's goals, deciding whether fees paid to third parties should continue to be disregarded when calculating benefit payment amounts and whether the amount of disregarded fees should be capped, and strengthening internal controls.

The following savings estimate is based on the assumption that the Congress takes legislative action to restrict individuals from gaining access to SSI through the PASS program when their DI benefits or other income exceed the eligibility threshold.

---

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level adjusted for inflation					
Budget authority	5	10	15	15	15
Outlays	5	10	15	15	15

Source: Congressional Budget Office.

---

**Related GAO Product**

PASS Program: SSA Work Incentive for Disabled Beneficiaries Poorly Managed (GAO/HEHS-96-51, February 28, 1996).

---

**GAO Contact**

Jane L. Ross, (202) 512-7215

---

## **700 Veterans Benefits and Services**

- Veterans' Disability Compensation for Nonservice Connected Diseases
- Approving Education and Training Programs for Veterans
- Cost Sharing for Veterans' Long-Term Care
- Effective VA Hospital Preadmission Certification
- Construction of Veterans' Medical Facilities
- Underused VA Hospitals
- VA's Medical Care Account Growth Rate
- Enrollment in VA Health Care System
- Outpatient Pharmacy Costs
- Sunset Date of VA's Income Verification Program

**Option:  
Veterans' Disability  
Compensation for  
Nonservice  
Connected Diseases**

Authorizing committees	Veterans' Affairs (Senate and House)
Primary agency	Department of Veterans Affairs
Account	Compensation (36-0153)
Spending type	Direct
Budget subfunction	Income Security for Veterans
Framework theme	Redefine beneficiaries

During 1986, the Department of Veterans Affairs (VA) paid approximately \$1.7 billion in disability compensation payments to veterans with diseases neither caused nor aggravated by military service. In 1996, CBO reported that about 230,000 veterans were receiving about \$1.1 billion annually in VA compensation for these diseases. GAO's study of five countries shows that those countries do not compensate veterans under such circumstances. The Congress may wish to reconsider whether such diseases should be compensated as service-connected disabilities. If disability compensation payments to veterans with nonservice connected, disease-related disabilities were eliminated in future cases, the following savings would apply.

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level adjusted for inflation					
Budget authority	15	48	82	118	156
Outlays	14	44	87	105	151

Source: Congressional Budget Office.

**Related GAO Products**

Disabled Veterans Programs: U.S. Eligibility and Benefit Types Compared With Five Other Countries (GAO/HRD-94-6, November 24, 1993).

VA Benefits: Law Allows Compensation for Disabilities Unrelated to Military Service (GAO/HRD-89-60, July 31, 1989).

**GAO Contact**

Stephen P. Backhus, (202) 512-7111

## Option: Approving Education and Training Programs for Veterans

Authorizing committees	Veterans Affairs (Senate and House)
Appropriation subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Veterans Affairs
Account	Readjustment Benefits (36-0137)
Spending type	Discretionary
Budget subfunction	Veterans Education, Training and Rehabilitation
Framework theme	Improve efficiency

The Department of Veterans Affairs (VA) contracts with state approving agencies (SAA) to assess whether schools and training programs offer education of sufficient quality for veterans to receive VA education assistance benefits when attending them. SAAs perform this "gatekeeping" or approval function by evaluating course quality, school financial stability, and student progress. In fiscal year 1994, VA paid more than \$1 billion in education assistance benefits to more than 450,000 beneficiaries and spent about \$12 million for SAA gatekeeping services.

Other federal agencies—particularly the Department of Education and the Department of Labor—also perform gatekeeping by determining whether postsecondary educational and training programs and institutions meet federal requirements for student loans and grants, apprenticeship assistance, and other forms of federal support.

An estimated \$10.5 million of the \$12 million paid to SAAs in 1994 was spent to conduct assessments that overlapped those of the Department of Education. These assessments involved reviews of academic and vocational schools that were already accredited by Education-approved agencies. SAA efforts costing another \$400,000 in 1994 may have overlapped assessments of apprenticeship programs done by Labor, though the data were not available to determine if overlap was indeed occurring. The remaining SAA assessment activity—costing about \$1.1 million—did not overlap activities of other agencies because it involved on-the-job training programs and unaccredited schools, neither of which Education or Labor assessed.

The substantial amount of overlap that occurred between SAA and other gatekeepers' efforts raises questions about whether SAA efforts should continue at their current level. An estimated 87 percent of the approval

effort expended by SAAS related to schools and programs also subject to accreditation by Education-approved entities. Also, in a review of six jurisdictions, 93 percent of the accredited schools were also certified by Education to participate in Title IV student aid programs. School certification involves applying standards that are similar to those used by SAAS. On its face, an SAA review of courses of study at an Education-certified school would appear to add only marginal value. An opportunity exists for reducing federal expenditures by over \$10 million annually through elimination of overlapping SAA gatekeeping efforts.

The following CBO savings estimate is based on the assumption that the Congress directs VA to discontinue contracting with SAAS to review and approve educational programs at schools that have already been reviewed and certified by Education.

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from 1997 funding level					
Budget authority	10	10	10	10	10
Outlays	10	10	10	10	10
Savings from 1997 funding level adjusted for inflation					
Budget authority	10	11	11	11	12
Outlays	10	11	11	11	12

Source: Congressional Budget Office.

**Related GAO Product**

VA Student Financial Aid: Opportunity to Reduce Overlap in Approving Education and Training Programs (GAO/HEHS-96-22, October 30, 1995).

**GAO Contact**

Carlotta C. Joyner, (202) 512-7002

## Option: Cost Sharing for Veterans' Long-Term Care

Authorizing committees	Veterans' Affairs (Senate and House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Veterans Affairs
Account	Medical Care (36-0160)
Spending type	Discretionary
Budget subfunction	Hospital and Medical Care for Veterans
Framework theme	Redefine beneficiaries

State veterans' homes recover as much as 50 percent of the costs of operating their facilities through charges to veterans receiving services. Similarly, Oregon recovers about 14 percent of the costs of nursing home care provided under its Medicaid program through estate recoveries. In fiscal year 1990, the Department of Veterans Affairs (VA) offset less than one-tenth of 1 percent of its costs through beneficiary copayments.

Potential recoveries appear to be greater within the VA system than under Medicaid. Home ownership is significantly higher among VA hospital users than among Medicaid nursing home recipients, and veterans living in VA nursing homes generally contribute less toward the cost of their care than do Medicaid recipients, allowing veterans to build larger estates.

The Congress may wish to consider increasing cost sharing for VA nursing home care by (1) adopting cost-sharing requirements similar to those imposed by most state veterans' homes and (2) implementing an estate recovery program similar to those operated by many states under their Medicaid programs. If VA recovered either 25 percent or 50 percent of its costs of providing nursing home and domiciliary care through a combination of cost sharing and estate recoveries, the savings shown in the following table would apply.

**Appendix III**  
**Options for Deficit Reduction**

**Five-Year Savings**

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Option: Recovery of 25 percent of costs					
Budget authority	678	678	678	678	678
Outlays	678	678	678	678	678
Option: Recovery of 50 percent of costs					
Budget authority	1,359	1,359	1,359	1,359	1,359
Outlays	1,359	1,359	1,359	1,359	1,359

Source: Congressional Budget Office.

**Five-Year Savings**

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level adjusted for inflation					
Option: Recovery of 25 percent of costs					
Budget authority	703	727	752	778	805
Outlays	703	727	752	778	805
Option: Recovery of 50 percent of costs					
Budget authority	1,408	1,456	1,507	1,559	1,614
Outlays	1,408	1,456	1,507	1,559	1,614

Source: Congressional Budget Office.

**Related GAO Products**

VA Health Care: Potential for Offsetting Long-Term Care Costs Through Estate Recovery (GAO/HRD-93-68, July 27, 1993).

VA Health Care: Offsetting Long-Term Care Cost By Adopting State Copayment Practices (GAO/HRD-92-96, August 12, 1992).

**GAO Contact**

Stephen P. Backhus, (202) 512-7111

Option:  
Effective VA Hospital  
Preadmission  
Certification

Authorizing committees	Veterans' Affairs (House and Senate)
Appropriations subcommittees	VA, HUD, and Independent Agencies (House and Senate)
Primary agency	Department of Veterans Affairs
Account	Medical Care (36-0160)
Spending type	Discretionary
Budget subfunction	Hospital and Medical Care for Veterans
Framework theme	Improve efficiency

Department of Veterans Affairs (VA) hospitals too often serve patients whose care could be more efficiently provided in alternative settings, such as outpatient clinics or nursing homes. In 1985, we reported that about 43 percent of the days of care that VA medical and surgical patients spent in the VA hospitals reviewed could have been avoided. Since then, several studies by VA researchers and the VA Office of Inspector General have found that over 40 percent of VA hospitals admissions and days of care were not medically necessary.

Private health insurers typically require their policyholders (or their physicians) to obtain authorization from the insurer or its agent prior to admission to a hospital. Failure to obtain such preadmission certification can result in denial of insurance coverage or a reduction in payment. For example, all fee-for-service health plans participating in the Federal Employees Health Benefits Program are required to operate a preadmission certification program to help limit nonacute admissions and days of care.

We have recommended that VA establish an independent preadmission certification program. Although VA agreed to establish such a program, it has provided no time frame for completing development and implementation of the program. In addition, it has not indicated how compliance with the findings of external reviews will be enforced. Because VA facilities currently incur no financial risk from providing inappropriate care, external preadmission certification requirements may not be effective unless coupled with a financial penalty for noncompliance with review findings.

CBO estimates that if VA were to establish precertification procedures similar to those used by private health insurers which result in a

40-percent reduction in admissions and days of care, VA's Medical Care spending could be reduced by \$8.4 billion over 5 years.

Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level adjusted for inflation					
Budget authority	1,655	1,670	1,682	1,693	1,703
Outlays	1,490	1,652	1,681	1,692	1,702

Source: Congressional Budget Office.

Related GAO Products

VA Health Care: Issues Affecting Eligibility Reform Efforts (GAO/HEHS-96-160, September 11, 1996).

VA Health Care: Opportunities for Service Delivery Efficiencies Within Existing Resources (GAO/HEHS-96-121, July 25, 1996).

VA Health Care: Opportunities to Increase Efficiency and Reduce Resource Needs (GAO/T-HEHS-96-99, March 8, 1996).

VA Health Care: Challenges and Options for the Future (GAO/T-HEHS-95-147, May 9, 1995).

Better Patient Management Practices Could Reduce Length of Stay in VA Hospitals (GAO/HRD-85-52, August 8, 1985).

GAO Contact

Stephen P. Backhus, (202) 512-7111

## Option: Construction of Veterans' Medical Facilities

Authorizing committees	Veterans Affairs (Senate and House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Veterans Affairs
Account	Construction (36-0110)
Spending type	Discretionary
Budget subfunction	Hospital and Medical Care for Veterans
Framework theme	Redefine beneficiaries

The Department of Veterans Affairs' (VA) health care system comprises one of the nation's largest networks of direct delivery health care providers, including 173 hospitals, 376 outpatient clinics, 133 nursing homes, and 39 domiciliaries. These facilities provided care to about 2.2 million veterans at a cost of about \$16 billion in fiscal year 1995. For fiscal year 1996, VA medical centers proposed to headquarters more than \$3 billion in funding requests for major construction projects.<sup>26</sup> In the fiscal year 1996 budget request, the President asked the Congress to appropriate \$514 million for nine projects. The projects range in size from \$9 million to renovate nursing units in one hospital to \$211.1 million to build a new medical center at Travis Air Force Base in California.

Long-term commitments for any major construction or renovation of predominantly inpatient facilities in today's rapidly changing health care environment are accompanied by high levels of financial risk. VA's recent commitment to a major realignment of its health care system magnifies such risk by creating additional uncertainty. In addition, we believe that analyzing such alternatives in connection with the other major construction projects in VA's budget proposal is entirely consistent with VA's suggested realignment criteria. Delaying funding for these projects until the alternatives can be fully analyzed may result in more prudent and economical use of already scarce federal resources.

The potential savings of delaying funding for VA hospital construction are uncertain in the absence of an assessment of VA's needs based on its own realignment criteria. However, we have recently reported that VA officials did not rigorously consider available alternatives to construction of two major new hospital facilities: Brevard Hospital in Brevard County, Florida, and Travis Hospital at Travis Air Force Base in northern California. The Congress directed VA to forgo construction of Brevard Hospital for savings

<sup>26</sup>Major projects are those costing \$3 million or more.

totaling \$155 million and develop lower cost alternatives to meet veterans' needs.

Additionally, we found that construction of additional hospital beds and an outpatient clinic as large as VA proposes at Travis Air Force Base is unnecessary. Although significant changes have occurred in the health care marketplace and in the way VA delivers health care in the 4 years since the project was planned, VA plans have not been revised accordingly. These changes alone have resulted in over 3,300 unused hospital beds in northern California hospitals, including beds in VA, Air Force, and community hospitals. In addition, the veteran population in the service area is expected to drop by about 25 percent between 1995 and 2010. We also found that VA has not considered the likely negative effects the additional beds could have on other hospitals in northern California, particularly those community hospitals in the Solano County area surrounding Travis Air Force Base that have occupancy rates of around 40 percent.

CBO estimates that if the Congress did not approve funding of any major construction projects until after VA has completed its realignment, savings totaling more than \$1.2 billion could be achieved over 5 years.

Five-Year Savings

Dollars in millions					
	FY98	FY99	FY00	FY01	FY02
Savings from 1997 funding level					
Budget authority	219	219	219	219	219
Outlays	21	36	104	168	207
Savings from 1997 funding levels adjusted for inflation					
Budget authority	224	231	237	243	250
Outlays	1	37	108	175	220

Source: Congressional Budget Office.

Related GAO Products

- VA Health Care: Travis Hospital Construction Project Is Not Justified (GAO/HEHS-96-198, September 3, 1996).
- VA Health Care: Effects of Facility Realignment on Construction Needs Are Unknown (GAO/HEHS-96-19, November 17, 1995).

---

**Appendix III**  
**Options for Deficit Reduction**

---

VA Health Care: Need for Brevard Hospital Not Justified (GAO/HEHS-95-192,  
August 29, 1995).

---

**GAO Contact**

Stephen P. Backhus, (202) 512-7111

## Option: Underused VA Hospitals

Authorizing committees	Veterans' Affairs (House and Senate)
Appropriations subcommittees	VA, HUD, and Independent Agencies (House and Senate)
Primary agency	Department of Veterans Affairs
Account	Medical Care (36-0160)
Spending type	Discretionary
Budget subfunction	Hospital and Medical Care for Veterans
Framework theme	Improve efficiency

Although the Department of Veterans Affairs (VA) took over 50,000 hospital beds out of service between 1970 and 1995, it did not close any hospitals based on declining utilization. With the declining veteran population, new technologies, and VA's plans to emphasize outpatient care, significant further declines in demand for VA hospital care are likely. While closing wards clearly saves some money by reducing staffing costs, the cost per patient treated rises because the fixed costs of facility operation are disbursed over fewer patients. At some point, closing a hospital and providing care either through another VA hospital or through contracts with community hospitals may become less costly than simply taking beds out of service.

Potential savings from hospital closures are difficult to estimate because of uncertainties about which facilities would be closed, the increased costs that would be incurred in providing care through other VA hospitals or contracts with community hospitals, and the disposition of the closed facilities. VA is currently developing strategic plans to assess veterans' future health care needs that could provide a basis for decisions regarding which hospitals to close.

## Related GAO Products

VA Health Care: Opportunities for Service Delivery Efficiencies Within Existing Resources (GAO/HEHS-96-121, July 25, 1996).

VA Health Care: Opportunities to Increase Efficiency and Reduce Resource Needs (GAO/T-HEHS-96-99, March 8, 1996).

VA Health Care: Challenges and Options for the Future (GAO/T-HEHS-95-147, May 9, 1995).

---

**Appendix III**  
**Options for Deficit Reduction**

---

**GAO Contact**

Stephen P. Backhus, (202) 512-7111

Option:  
VA's Medical Care  
Account Growth Rate

Authorizing committees	Veterans' Affairs (House and Senate)
Appropriations subcommittees	VA, HUD, and Independent Agencies (House and Senate)
Primary agency	Department of Veterans Affairs
Account	Medical Care (36-0160)
Spending type	Discretionary
Budget subfunction	Hospital and Medical Care for Veterans
Framework theme	Reassess objectives

The Department of Veterans Affairs' (VA) health care system was established in 1930, primarily to provide for the rehabilitation and continuing care of veterans injured during wartime service. VA developed its health care system as a direct delivery system in which the government owned and operated its own health care facilities. It grew into the nation's largest direct delivery system. Veterans' health care benefits include medically necessary hospital and nursing home care and some outpatient care.

We found that VA's health care system should be able to significantly contribute to deficit reduction in the next 5 years. First, the system may not need to expend the level of resources that VA had previously estimated to meet the health care needs of veterans. These resources are overstated because (1) VA did not adequately reflect the declining demand for VA hospital care in estimating its resource needs and (2) eligibility for VA resources has been reformed, which, according to VA, will allow VA to divert 20 percent of its hospital admissions to less costly outpatient settings. Second, VA could reduce operating costs over the next 5 years by billions of dollars by completing actions on a wide range of efficiency initiatives. Actions are planned or underway on many of the improvements.

The success of these efforts, however, depends on the extent to which VA and its health care facilities are held accountable for how they spend appropriated funds. We recently recommended that VA provide the Congress improved information supporting its budget request. Specifically, we recommended that VA provide the Congress information on the savings achieved through improved efficiency. Providing the Congress with information on factors, such as inflation and creation of new programs, that increase resource needs without providing information on changes that could reduce or offset those needs leaves the Congress with little

basis for determining appropriate funding levels. VA, however, has been unwilling to provide the Congress such information.

In 1995, the Congress adopted a budget resolution providing VA medical care budget authority of \$16.2 billion annually for 7 years, essentially limiting VA spending at the fiscal year 1995 level. VA estimated that such a limitation would result in a cumulative shortfall of almost \$24 billion in the funds it would need to maintain current services to the veteran population through 2002. However, we reported that VA overestimated the potential budget shortfall because it assumed that (1) the VA facility workload would increase in fiscal year 1996 and that it would be sustained during the entire 7-year period, (2) limited savings would be achieved through improvements in the efficiency with which services are provided by VA facilities, and (3) costs, workload, and staffing would steadily increase due to opening or expanding facilities.

Because VA facilities are essentially allowed to keep any funds they generate through efficiency improvements and seek additional funds to compensate for the effects of inflation, the true rate of increase in VA's medical care appropriation is understated. One way for the Congress to respond to VA's unwillingness to provide information on savings from improved efficiency and the overestimation of needs would be to limit the VA medical care appropriation at the fiscal year 1997 level for the next 5 years. CBO estimates that this would result in almost \$9 billion in savings.

#### Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	0	0	0	0	0
Outlays	0	0	0	0	0
Savings from 1997 funding level adjusted for inflation					
Budget authority	584	1,165	1,767	2,395	3,050
Outlays	525	1,101	1,701	2,326	2,978

Source: Congressional Budget Office.

#### Related GAO Products

VA Health Care: Opportunities for Service Delivery Efficiencies Within Existing Resources (GAO/HEHS-96-121, July 25, 1996).

---

**Appendix III**  
**Options for Deficit Reduction**

---

VA Health Care: Opportunities to Increase Efficiency and Reduce Resource Needs (GAO/T-HEHS-96-99, March 8, 1996).

Medical Care Budget Alternatives (GAO/HEHS-95-247R, September 12, 1995).

---

**GAO Contact**

Stephen P. Backhus, (202) 512-7111

## Option: Enrollment in VA Health Care System

Authorizing committees	Veterans' Affairs (House and Senate)
Appropriations subcommittees	VA, HUD, and Independent Agencies (House and Senate)
Primary agency	Department of Veterans Affairs
Account	Medical Care (36-0160)
Spending type	Discretionary
Budget subfunction	Hospital and Medical Care for Veterans
Framework theme	Redefine beneficiaries

The Department of Veterans Affairs' (VA) health care system was initially established to meet the special care needs of veterans injured during wartime and those wartime veterans permanently incapacitated and incapable of earning a living. Although all veterans were eligible for hospital care, most veterans were eligible for only limited outpatient services.

Recently enacted legislation expands eligibility for health benefits to make all veterans eligible for comprehensive inpatient and outpatient services, subject to the availability of resources. The legislation also requires VA to establish a system of enrollment for VA health care benefits and establishes enrollment priorities to be applied within appropriated resources. The lowest priority for enrollment are veterans with no service-connected disabilities and incomes that place them in the discretionary care category.

However, VA does not currently provide the Congress the type of information on VA's workload that would enable it to make informed judgments about which portion of VA's workload to fund. For example, it provides the Congress little data on the extent to which its resources are used to provide services to service-connected veterans, to veterans with low incomes, and to veterans with higher incomes. Without information on the extent to which VA resources are used to provide services to veterans in the priority categories established under the new law, the Congress lacks the basic information needed to guide decisions about what portion of VA's workload to fund.

We found that about 15 percent of veterans with no service-connected disabilities who use VA medical centers have sufficiently high incomes that would place them in the lowest priority category under the new patient enrollment system. If the Congress funded the VA health care system to cover only the expected enrollment of veterans in higher priority

enrollment categories, such as veterans with service-connected disabilities and veterans without the means to obtain public or private insurance to meet their basic health care needs, CBO estimates that \$1.7 billion in budget authority adjusted for inflation could be saved over 5 years.

Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from 1997 funding level					
Budget authority	280	280	280	280	280
Outlays	252	277	280	280	280
Savings from 1997 funding level adjusted for inflation					
Budget authority	323	335	346	358	371
Outlays	291	331	346	358	371

Source: Congressional Budget Office.

Related GAO Products

VA Health Care: Issues Affecting Eligibility Reform Efforts (GAO/HEHS-96-160, September 11, 1996).

VA Health Care: Opportunities for Service Delivery Efficiencies Within Existing Resources (GAO/HEHS-96-121, July 25, 1996).

VA Health Care: Approaches for Developing Budget-Neutral Eligibility Reform (GAO/T-HEHS-96-107, March 20, 1996).

VA Health Care: Opportunities to Increase Efficiency and Reduce Resource Needs (GAO/T-HEHS-96-99, March 8, 1996).

VA Health Care: Issues Affecting Eligibility Reform (GAO/T-HEHS-95-213, July 19, 1995).

GAO Contact

Stephen P. Backhus, (202) 512-7111

Option:  
Outpatient Pharmacy  
Costs

Authorizing committees	Veterans' Affairs (Senate and House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Veterans Affairs
Account	Medical Care (36-0160)
Spending type	Discretionary
Budget subfunction	Hospital and Medical Care for Veterans
Framework theme	Redefine beneficiaries

The Department of Veterans Affairs' (VA) pharmacies dispense over 2,000 types of medications and medical supplies to veterans that are available over the counter (OTC) through local retail outlets. Such products were dispensed more than 15 million times in 1995 at an estimated cost of \$165 million. The most frequently dispensed include aspirin, dietary supplements, and alcohol prep pads. VA physicians and others are concerned that veterans who need such products may lack the resources to purchase them and, as a result, not use them. However, only a few VA pharmacies restrict which veterans may receive OTC products or how many are provided. While many veterans shared a modest portion of the costs of the OTC products, in most cases, the veterans paid no copayments and VA absorbed the total costs of these OTC products.

Unlike VA, other public and private health care plans cover few, if any, OTC products for their beneficiaries. These plans' coverage of OTC products is more restrictive than all but a few of VA's facilities. In addition, VA facilities provide other features, such as free prescription mail service, that are commonly not available from other plans. As a result, VA facilities devote significant resources to the provision of OTC products that other plans have elected not to cover.

Our assessment of VA's operating practices suggests several ways that budget savings could be achieved. First, VA could more narrowly define when to provide OTC products, reducing the number of OTC products available to veterans on an outpatient basis. Second, VA could collect copayments for all OTC products. CBO has estimated that these steps would save the following amounts.

**Appendix III**  
**Options for Deficit Reduction**

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Option: Restrict availability of OTC products at VA pharmacies					
Savings from the 1997 funding level					
Budget authority	60	60	61	61	62
Outlays	54	59	61	61	62
Savings from the 1997 funding level adjusted for inflation					
Budget authority	62	64	67	70	74
Outlays	55	64	67	70	73

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Option: Charge copayments on OTC products at VA pharmacies					
Savings from the 1997 funding level					
Budget authority	5	9	14	14	14
Outlays	5	9	14	14	14
Savings from the 1997 funding level adjusted for inflation					
Budget authority	5	9	14	14	14
Outlays	5	9	14	14	14

Source: Congressional Budget Office.

**Related GAO Product**

VA Health Care: Opportunities to Significantly Reduce Outpatient Pharmacy Costs (GAO/HEHS-97-15, October 11, 1996).

**GAO Contact**

Stephen P. Backhus, (202) 512-7111

## Option: Sunset Date on VA's Income Verification Program

Authorizing committees	Veterans' Affairs (Senate and House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Veterans Affairs
Accounts	Compensation (36-0153) Medical Care (36-0160)
Spending type	Direct
Budget subfunctions	Multiple
Framework theme	Improve efficiency

The Department of Veterans Affairs (VA) administers over \$35 billion annually in benefits and health care programs for veterans and their dependents. Eligibility for benefits and the level of benefits paid are often income dependent. VA uses self-reported income in establishing eligibility for certain benefits. In general, the lower the reported income, the higher the benefits.

In 1988 we recommended that the Congress amend the Internal Revenue Code to give VA access to tax data to verify income reported by VA pension recipients. We estimated that VA made potential overpayments of over \$157 million in 1984 because it lacked access to tax data. Legislation was enacted in 1990 that gave VA access to Internal Revenue Service (IRS) tax data and Social Security Administration (SSA) earnings records to help VA verify incomes reported by beneficiaries. Since 1990, millions of dollars in savings have been achieved as a result of VA's income verification program.

However, the provision authorizing IRS and SSA assistance to VA in verifying income will expire on September 30, 1998—its "sunset" date. If the provision is not extended, VA's outlays will be unnecessarily higher.

### Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Budget authority	0	22	27	31	36
Outlays	0	22	27	31	36

Source: Congressional Budget Office.

---

Related GAO Products

VA Health Care: Verifying Veterans' Reported Income Could Generate Millions in Copayment Revenues (GAO/HRD-92-159, September 15, 1992).

Veterans' Benefits: Millions in Savings Possible From VA's Matching Program With IRS and SSA (GAO/HRD-92-37, December 23, 1991).

Veterans' Pensions: Verifying Income With Tax Data Can Identify Significant Payment Problems (GAO/HRD-88-24, March 16, 1988).

---

GAO Contact

Stephen P. Backhus, (202) 512-7111

---

**750 Administration  
of Justice**

- Border Patrol Resources

## Option: Border Patrol Resources

Authorizing committees	Judiciary (Senate and House)
Appropriations subcommittees	Commerce, Justice, State, and the Judiciary (Senate and House)
Primary agency	Department of Justice
Accounts	Immigration and Naturalization Service Salaries and Expenses (15-1217) Violent Crime Reduction Fund Programs (15-8598)
Spending type	Discretionary
Budget subfunction	Federal Law Enforcement Activities
Framework theme	Improve efficiency

Drug smuggling and illegal immigration are serious threats along the Southwest border. Experts estimate that most of the cocaine and most illegal aliens entering the United States enter from Mexico across the Southwest border. Unless border control efforts become more effective, illegal immigration is expected to increase over the next decade.

The Department of Justice's Immigration and Naturalization Service (INS) is responsible for enforcing the nation's immigration laws. The INS has 3 regional offices, 33 district offices, 21 Border Patrol sectors with 145 Border Patrol offices, and 265 staffed ports of entry. The three principal divisions with enforcement responsibilities include the Border Patrol, Investigations, and Inspections.

The Violent Crime Control and Law Enforcement Act of 1994 increased funding for the Border Patrol to help stem the flow of illegal aliens crossing the Southwest border. The legislation authorized an increase of 4,000 Border Patrol agents and support staff over four years to carry out the INS' new border enforcement strategy of "prevention through deterrence." Under this strategy, Border Patrol agents are to be deployed on the border to discourage aliens from entering illegally. Previously, agents were deployed in border areas, but their strategy was to apprehend aliens after they had entered the United States.

Nationwide, in fiscal year 1994, the Border Patrol reportedly spent 63 percent of its enforcement time preventing illegal alien entry. The remaining 37 percent was spent apprehending aliens who illegally entered or violated the conditions upon which they entered. The activities of Border Patrol agents generally vary according to their distance from the

border. Agents at most stations within 25 miles of the border were principally engaged in patrolling the border to prevent illegal entry of aliens. In contrast, agents at stations over 25 miles from the border were principally engaged in apprehending illegal aliens after their entry.

INS district offices and Border Patrol sectors geographically overlap throughout the country. In addition, some Border Patrol enforcement activities parallel the enforcement activities of other INS enforcement divisions. Border Patrol and Investigations are both responsible for identifying criminal and illegal aliens after they enter the country and reviewing employers' records to determine whether only authorized workers are employed. The work in these parallel areas is usually a lower priority for the Border Patrol.

INS data indicates that it costs half as much to redirect existing Border Patrol agents to the border than to hire and train new agents. Also, redirecting the time spent by agents at the 32 southwest border stations from apprehending aliens after entry to patrolling the border would decrease the number of new agents needed. Furthermore, relocating interior Border Patrol agents to the borders could result in INS closing some Border Patrol stations and reducing some of its lease costs. In a recent example of how this type of redirection and redeployment might be implemented, the Congress directed the Border Patrol to redeploy 200 agent positions from interior stations to the Southwest border. Following this directive, INS set aside only 100 investigator positions to perform the activities that had previously been performed by the 200 redeployed agents.

The Congress could direct the INS to fully implement its new enforcement strategy by redeploying additional Border Patrol agents and closing Border Patrol stations that are not carrying out operations designed to prevent the entry of illegal aliens. Given the emphasis that the President and the Congress have placed on controlling the nation's borders, one possible approach would be to redeploy resources to those border areas where there is an immediate threat of illegal entry. Although CBO could not provide an estimate of savings at this time, under this approach Border Patrol stations where agents spend less than, for example, 50 percent of their time patrolling the border or less than 75 percent of their time conducting traffic checks, might be closed and have its agents redeployed. Also, stations in close proximity to the Southwest or Canadian borders where agents do not spend a minimum of, for example, 50 percent of their time patrolling the border or 75 percent of their time conducting traffic

---

**Appendix III**  
**Options for Deficit Reduction**

---

checks, might have the activities of its agents redirected to prevent entry of illegal aliens. Further, the redirection of agents' activities should reduce the number of new agents the Border Patrol would need to hire to increase the amount of time spent patrolling the border.

---

**Related GAO Products**

Border Patrol: Staffing and Enforcement Activities (GAO/GGD-96-65, March 11, 1996).

Border Control: Revised Strategy is Showing Some Positive Results (GAO/T-GGD-95-92, March 10, 1995).

---

**GAO Contact**

Norman J. Rabkin, (202) 512-8777

---

**800 General  
Government,  
900 Net Interest,  
and 999 Multiple**

- General Services Administration Supply Depot System
- Judiciary's Long-Range Space Planning System
- The 1-Dollar Coin
- Commemorative Coins
- Federal Reserve Operations
- Premium Payments to Employees While on Leave
- Davis-Bacon Act Reform
- Formula-Based Grant Programs
- Federal Grants
- Federal Travel Processing

## Option: General Services Administration Supply Depot System

Authorizing committees	Governmental Affairs (Senate) Government Reform and Oversight (House)
Primary agency	General Services Administration
Account	General Supply Fund (47-4530)
Spending type	Direct
Budget subfunction	General Property and Records Management
Framework theme	Improve efficiency

The General Services Administration (GSA) has a multimillion dollar supply system to help support federal agencies' mission needs. As part of this system, GSA buys and warehouses about 16,000 common-use supply products and resells and ships them to federal agencies through five depots. An alternative method GSA uses is to have supplies delivered directly from suppliers to federal agencies. Agencies pay less when supplies are delivered directly. At the time of GAO's most recent work, GSA marked up directly delivered products, on average, 10 percent of product cost, while products stored and shipped from GSA depots were marked up an average of 29 percent. For fiscal year 1996, GSA's markups had increased to 22 percent and 35 percent, respectively. Although the cost difference between the two delivery options has lessened in the intervening years for a variety of reasons, including a changed methodology for calculating mark-ups developed in fiscal year 1995, the difference is still significant and reflects the higher costs associated with maintaining and operating a large depot distribution system.

In fiscal year 1992, GAO's review showed that GSA directly delivered only an estimated \$68 million of the estimated \$800 million in sales that had potential for direct delivery during the 12-month period ending on February 14, 1991. This means that over 80 percent of depot sales had potential to be supplied in this way. The remaining depot sales were mostly low-value, small-quantity orders which may have been uneconomical for GSA to handle—more specifically, it cost them more to provide the materials than the customer paid. Most of these orders could have been purchased locally without going through GSA. If GSA increased direct delivery and encouraged agencies to purchase low-value, small-quantity orders locally, it could significantly reduce needed depot operations.

Maintaining a large and costly depot distribution system may no longer be a viable or necessary activity for the federal government. Consistent with this position, the Vice President's National Performance Review recommended that supply inventories be reduced and agencies be allowed to choose sources of supply. In response, GSA is studying its own and private-sector depot distribution costs to identify where greater efficiency could be achieved. In addition, GSA (1) permits agencies to use supply sources other than depots for purchases under \$5,000, which GSA estimated includes 99 percent of all potential purchases, (2) has actions to identify logistic models that may provide other sources of supply capable of providing items at reasonable costs, and (3) has increased the use of commercial rather than government-specific item descriptions, which should provide a clearer link between the items agencies need and those available commercially. To the extent that GSA's efforts result in more economical and efficient ways for agencies to obtain needed supplies outside the depot system, GAO believes that there will be increased opportunities to reduce or possibly even eliminate GSA's depot system.

The Congress could consider requiring increased use of direct delivery for high-dollar value supplies and only stocking items that are profitable. After these changes are implemented, GSA or the Congress could phase out GSA depots that are no longer economically justifiable or needed. If all the depots were phased out, the following savings would result.

#### Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level adjusted for inflation					
Budget authority	16	34	52	54	56
Outlays	12	30	48	54	55

Source: Congressional Budget Office.

#### Related GAO Products

General Services Administration: Increased Direct Delivery of Supplies Could Save Millions (GAO/GGD-93-32, December 28, 1992).

Transition Series: General Services Issues (GAO/OCG-93-28TR, December 1992).

#### GAO Contact

J. William Gadsby, (202) 512-8387

## Option: Judiciary's Long-Range Space Planning System

Authorizing committees	Environment and Public Works (Senate) Transportation and Infrastructure (House)
Primary agency	Administrative Office of the United States Courts
Account	Federal Buildings Fund (47-4542)
Spending type	Direct
Budget subfunction	General Property and Records Management
Framework theme	Improve efficiency

In 1988, the Administrative Office of the U.S. Courts (AOC) developed a long-range plan for space needs. Based on 1992 space projections by the AOC, GAO estimated that the total space requirements for courts and related agencies would increase to about 36.9 million square feet over a 10-year period—a 97-percent increase. GAO found that AOC's planning process resulted in higher estimates for court space than is warranted. Using the judiciary's \$31 per square foot average cost for all court space, GAO showed that the judiciary could save approximately \$112 million annually, or \$1.1 billion in constant dollars over a 10-year period, if the errors in its planning process were corrected.

The Congress should direct the judiciary to revise its planning process for identifying long-range space needs. Specifically, the process should (1) treat all judicial districts consistently in terms of assumptions between caseloads, staff, and space, (2) establish a baseline of space needs for each district that reflects current caseloads, and (3) increase the reliability of its estimates by using an appropriate statistical methodology to project caseloads and by reducing the level of subjectivity in the process. Because of uncertainty about the nature and extent of changes that might be made to the planning process, a 5-year estimate of savings cannot be developed for this option.

## Related GAO Products

Federal Courthouse Construction: More Disciplined Approach Would Reduce Costs and Provide for Better Decisionmaking (GAO/T-GGD-96-19, November 8, 1995).

Federal Judiciary Space: Progress Is Being Made To Improve The Long-Range Planning Process (GAO/T-GGD-94-146, May 4, 1994).

---

**Appendix III**  
**Options for Deficit Reduction**

---

Federal Judicial Space Follow-up (GAO/GGD-94-135R, April 22, 1994).

Federal Judiciary Space: Long-Range Planning Process Needs Revision  
(GAO/T-GGD-94-1B, October 7, 1993).

Federal Judiciary Space: Long-Range Planning Process Needs Revision  
(GAO/GGD-93-132, September 28, 1993).

---

**GAO Contact**

J. William Gadsby, (202) 512-8387

Option:  
The 1-Dollar Coin

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Banking and Financial Services (House)
Appropriations subcommittees	Treasury, Postal Service, and General Government (Senate and House)
Primary agency	Department of the Treasury
Account	United States Mint Public Enterprise Fund (20-4159)
Spending Type	Direct
Budget subfunction	Central Fiscal Operations
Framework theme	Improve efficiency

In 1993 and 1995, GAO reported on cost savings associated with the 1-dollar coin. We said that because a dollar coin would have a longer life and be more easily processed than a note, and because the seigniorage<sup>27</sup> recognized reduces the amount of borrowing needed to finance the deficit, substituting a dollar coin for a dollar note would yield significant savings to the government. Other countries have demonstrated that public resistance to such a change can be managed and overcome.

The direct budgetary savings from this option, as scored by CBO, are relatively small during the 5-year estimating period. Additional revenues, shown in the first table that follows, result from increases in payments of earnings by the Federal Reserve Bank into miscellaneous receipts of the Treasury due to the lower costs of purchasing and processing these coins relative to dollar bills. Although not reflected in the table, there are other substantial longer term savings due to the effects of seigniorage. Seigniorage is not considered part of the budget, but it does substitute for borrowing from the public and, thus, lowers interest costs to the government. The second table shows that, initially, the U.S. Mint's costs would increase to cover the costs of research and development, metals acquisition, storage for coins stockpiled before their introduction into circulation,<sup>28</sup> and a public education campaign. CBO's estimate assumes that the Mint would pay for these costs by borrowing from seigniorage generated by coins already in circulation. These costs would be repaid when new dollar coins are deposited at the Federal Reserve and begin

<sup>27</sup>Seigniorage is the difference between the face value of the coin and its cost of production, which includes the value of the metals contained in the coin and the U.S. Mint's manufacturing and distribution costs.

<sup>28</sup>CBO's estimate assumes 30 months of lead time for the U.S. Mint to produce and stockpile new dollar coins before their introduction into circulation.

**Appendix III**  
**Options for Deficit Reduction**

generating their own seigniorage. Over time, the net effect on direct spending would be zero.

**Five-Year Revenues**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Revenue gains	0	0	0	80	110

Source: Congressional Budget Office.

**Five-Year Direct Spending Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Budget authority	-88	-278	212	142	2
Outlays	-88	-278	212	142	2

Source: Congressional Budget Office.

**Related GAO Products**

A Dollar Coin Could Save Millions (GAO/T-GGD-95-203, July 13, 1995).

1-Dollar Coin: Reintroduction Could Save Millions If It Replaced the 1-Dollar Note (GAO/T-GGD-95-146, May 3, 1995).

1-Dollar Coin: Reintroduction Could Save Millions if Properly Managed (GAO/GGD-93-56, March 11, 1993).

National Coinage Proposals: Limited Public Demand for New Dollar Coin or Elimination of Pennies (GAO/GGD-90-88, May 23, 1990).

**GAO Contact**

J. William Gadsby, (202) 512-8387

Option:  
Commemorative  
Coins

Authorizing committees	Banking, Housing and Urban Affairs (Senate) Banking and Financial Services (House)
Primary agency	Department of the Treasury
Spending type	Direct
Budget subfunction	Net Interest
Framework theme	Improve efficiency

In 1996, GAO reported that if the Congress authorized the United States Mint to produce circulating commemorative coins, which are coins with distinctive designs that are issued at face value, the government could generate about \$225 million in additional seigniorage annually. Seigniorage is the difference between the face value of the coin and its cost of production and distribution. Seigniorage is not considered part of the budget, but it does substitute for borrowing from the public and, thus, lowers interest costs to the government. Generating \$225 million in additional seigniorage annually would result in about \$16 million in interest savings on the national debt each year.

GAO concluded that because the quarter is the highest denomination and the largest in size of the widely circulating coins, it would be likely to generate the most seigniorage. GAO reported that in 1976, when the Mint produced a circulating quarter commemorating the Bicentennial, the Mint produced 83 percent more quarters commemorating the Bicentennial than its average annual production from 1971 to 1981. GAO based its 1996 estimate on the assumption that the demand for quarters would increase 50 percent over the 1995 production levels for the quarter. CBO did not provide an estimate of the savings from producing a circulating commemorative quarter since it involves interest savings only.

Related GAO Product      U.S. Mint: Commemorative Coins Could Be More Profitable (GAO/GGD-96-113, August 7, 1996).

GAO Contact      J. William Gadsby, (202) 512-8387

Option:  
Federal Reserve  
Operations

Authorizing committees	Banking, Housing and Urban Affairs (Senate) Banking and Financial Services (House)
Primary agency	Federal Reserve Board
Spending type	Direct
Framework theme	Improve efficiency

The Federal Reserve is responsible for conducting monetary policy, maintaining the stability of financial markets, providing services to financial institutions and government agencies, and supervising and regulating banks and bank-holding companies. The Federal Reserve is unique among governmental entities in its mission, structure, and finances. Unlike federal agencies funded through congressional appropriations, the Federal Reserve is a self-financing entity that deducts its expenses from its revenue and transfers the remaining amount to the U.S. Department of the Treasury. Although the Federal Reserve's primary mission is to support a stable economy, rather than to maximize the amount transferred to Treasury, its revenues contribute to total U.S. revenues and, thus, can help reduce the federal deficit.

From 1988 to 1994, the Federal Reserve's annual revenue averaged \$22 billion and greatly exceeded its average annual expenses and other deductions of \$2.5 billion. Consequently, the annual amount returned to the Treasury during this period ranged from about \$16 billion to \$24 billion. The cost of Federal Reserve operations over this period increased steadily and substantially. Specifically, operating expenses for the Board and Reserve banks increased by about 50 percent, with the greatest increases occurring in the areas of bank supervision, personnel costs, and data-processing modernization. The costs of providing services for which banks are charged have been rising faster than the corresponding revenues received.

With the current budgetary climate, the Federal Reserve could do more to increase its cost consciousness and ensure that it is operating as efficiently as possible. GAO has identified several inefficiencies in the Federal Reserve's policies and practices that have increased the cost of providing its current services, including its costs for travel, personnel benefits, building acquisition, and contracting and procurement. For example, personnel benefit packages varied among Reserve banks and certain benefits—such as leave policies and savings plans—were generous

compared to those of federal financial regulatory agencies with similar personnel requirements. We have also identified opportunities for the Federal Reserve to strengthen internal controls over financial reporting and safeguarding of assets.

The Federal Reserve could better control costs and increase efficiencies through management with a more systemwide focus. Such management would include reducing or eliminating benefits that are not necessary to attract and retain a quality workforce and managing other benefits on a systemwide basis, using the combined bargaining power of the 12 Reserve banks. The internal controls of all Reserve banks should be independently assessed annually to ensure reliable financial reporting, safeguarding of assets, and compliance with laws and regulations.

In addition, the Federal Reserve's revenue, and hence its return to taxpayers, would be enhanced by charging fees for bank examinations. The Federal Reserve Act authorizes the Federal Reserve to charge fees for bank examinations, but the Federal Reserve has not done so, either for the state-member banks it examines or the bank-holding company examinations it conducts. Thus, taxpayers in effect bear the cost of these examinations, which totaled \$368 million in 1994. If fees were assessed similar to those charged national banks with a credit allowed for fees paid to state regulators, the following savings could be achieved.<sup>29</sup>

#### Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Added receipts	72	75	78	82	86

Source: Congressional Budget Office.

#### Related GAO Products

Federal Reserve System: Current and Future Challenges Require Systemwide Attention (GAO/T-GGD-96-159, July 26, 1996).

Federal Reserve System: Current and Future Challenges Require Systemwide Attention (GAO/GGD-96-128, June 17, 1996).

Federal Reserve Banks: Inaccurate Reporting of Currency at the Los Angeles Branch (GAO/AIMD-96-146, September 30, 1996).

<sup>29</sup>CBO also assumes that the Federal Deposit Insurance Corporation (FDIC) begins to charge for bank examinations at the same rate; however, the effect on FDIC's budget is not included in its estimate.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Federal Reserve Banks: Internal Control, Accounting, and Auditing Issues**  
(GAO/AIMD-96-5, February 9, 1996).

---

**GAO Contact**

Thomas M. McCool, (202) 512-8678

**Option:  
Premium Payments to  
Employees While on  
Leave**

Authorizing committees	Multiple
Appropriations subcommittees	Multiple
Primary agency	Multiple
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple
Framework theme	Improve efficiency

The Office of Personnel Management has directed all federal agencies to pay employees who are scheduled to work on Sundays at the Sunday premium pay rate even if the employees take leave on Sunday. The directive became effective on May 27, 1993, and was based on a U.S. Claims Court interpretation of federal leave statutes that prohibit an employee's pay from being diminished due to taking leave. Prior to this time, employees who took leave on Sunday were paid at their basic pay rate for the leave rather than the Sunday premium rate of the base rate plus 25 percent. GAO reviewed five agencies—the Federal Aviation Administration, the Customs Service, and the Departments of Defense, Justice, and Veterans Affairs—which are among the most frequent payers of Sunday premium pay in the federal government. Using leave information provided by these five agencies for fiscal year 1994, we estimated that \$17.9 million of the \$146.1 million in Sunday premium pay was paid to employees on leave.

The Departments of Commerce, Justice, State, the Judiciary, and Related Agencies Appropriations Act of 1997 included a provision that precluded all the relevant agencies from paying premium pay for Sundays not actually worked. GAO addressed this issue governmentwide in a 1995 report. We suggested that to preclude federal employees from receiving Sunday premium pay while on leave and to reduce governmentwide employment costs, the Congress may wish to consider requiring that all agencies' employees actually must work on Sunday to receive Sunday premium pay.

**Related GAO Product**

Sunday Premium Pay: Millions of Dollars in Sunday Premium Pay Are Paid to Employees on Leave (GAO/GGD-95-144, May 19, 1995).

**GAO Contact**

L. Nye Stevens, (202) 512-8676

## Option: Davis-Bacon Act Reform

Authorizing committees	Labor and Human Resources (Senate) Economic and Educational Opportunities (House)
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Department of Labor
Accounts	Multiple
Spending type	Discretionary/Direct
Budget subfunctions	Multiple
Framework theme	Reassess objectives

The Davis-Bacon Act requires that workers on federally funded or federally assisted construction projects be paid wages at or above levels determined by the Department of Labor to be prevailing in an area. The current dollar threshold for projects covered by Davis-Bacon is \$2,000, an amount that has not changed since 1935. Critics of the act believe that it inflates federal construction costs because the wage rates set are actually higher than those prevailing in an area. Supporters say it sets a basic responsibility for federal construction contractors to pay wages typical in an area, not lower wage rates in order to receive a contract. They also argue that savings from lower wage rates would be offset by the higher total project costs and also from government revenue losses as a result of reduced tax collections.

In 1979, GAO expressed major concern about the accuracy of the wage determinations and the impact of the inaccurately high wage rates on federal construction costs. Since that time, Labor has made changes that have improved the administration of the Davis-Bacon Act and made it less likely that the wage rates would be artificially high. For example, Labor has revised its criteria to require that 50 percent, rather than 30 percent, of the workers included on survey projects must receive the same wage for that rate to be considered the prevailing wage. This made it less likely that the collectively bargained wage rate in an area would be used to set the prevailing wage and, as of 1995, less than 30 percent of all of Labor's wage determinations were set in that way. In 1996, Labor also implemented recommendations to reduce the potential for its wage determinations to be based on erroneous wage data. There is still an absence of current data, however, on the accuracy of wage rates set.

**Appendix III**  
**Options for Deficit Reduction**

In the past, CBO has noted that repealing the Davis-Bacon Act or raising the threshold for projects it covers would allow appropriators to reduce funds spent on federal construction. In addition, either action would increase the opportunities for employment of less skilled workers. However, such changes would lower the earnings of some construction workers. In 1997, CBO estimates that repeal of Davis-Bacon would allow appropriators to reduce funds for construction with a resulting discretionary outlay savings of about \$2.8 billion between fiscal years 1998 and 2002. CBO assumes that the currently suspended helper regulations will be reinstated beginning after the first quarter of fiscal year 1998.

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Direct spending					
Savings from the 1997 funding level adjusted for inflation					
Budget authority	32	26	24	24	23
Outlays	28	27	25	24	24

Note: CBO has identified some direct spending savings from the repeal of the Davis-Bacon Act, including a reclassification of about \$1.6 billion in federal aid to highways in fiscal year 1996.

Source: Congressional Budget Office.

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Discretionary spending					
Savings from the 1997 funding level					
Budget authority	799	777	777	777	777
Outlays	196	458	602	683	734
Savings from the 1997 funding level adjusted for inflation					
Budget authority	826	854	877	901	926
Outlays	196	463	625	739	816

Source: Congressional Budget Office.

**Related GAO Products**

**Information Regarding the Davis-Bacon Act, Correspondence to Representative Pete Hoekstra, (GAO/HEHS-97-30R, October 30, 1996).**

---

Information Regarding Davis-Bacon Wage Determinations, Correspondence to Representative Pete Hoekstra (GAO/HEHS-96-177R, July 17, 1996).

Davis-Bacon Act: Process Changes Could Address Vulnerability to Use Inaccurate Data in Setting of Prevailing Wage Rates (GAO/T-HEHS-96-166, June 20, 1996).

Davis-Bacon Act Job Targeting Programs, Correspondence to Representative William M. Thomas (GAO/HEHS-96-15R, June 3, 1996).

Davis-Bacon Act: Process Changes Could Raise Confidence That Wage Rates Are Based on Accurate Data (GAO/HEHS-96-130, May 31, 1996).

Davis-Bacon Act, Correspondence to Senator Larry Craig and Representatives Charles Stenholm, William Goodling, Tim Valentine, and Thomas Petri (GAO/HEHS-94-95, April 27, 1996).

Changes to the Davis-Bacon Act Regulations and Administration (GAO/HEHS-94-95R, February 7, 1994).

The Davis-Bacon Act Should Be Repealed (GAO/HRD-79-18, April 27, 1979).

---

GAO Contact

Carlotta C. Joyner, (202) 512-7002

## Option: Formula-Based Grant Programs

Authorizing committees	Multiple
Appropriations subcommittees	Multiple
Primary agencies	Multiple
Accounts	Multiple
Spending type	Discretionary/Direct
Budget subfunctions	Multiple
Framework theme	Redefine beneficiaries

GAO has issued many reports over the past decade showing that the distribution of federal grants to state and local governments is not well-targeted to those jurisdictions with greatest programmatic needs or lowest fiscal capacity to meet those needs. As a result, program recipients in areas with relatively lower needs and greater wealth may enjoy a higher level of services than is available in harder pressed areas, or the wealthier areas can provide the same level of services at lower tax rates than harder pressed areas.

At a time when federal domestic discretionary resources are constrained, better targeting of grant formulas offers a strategy to bring down federal outlays by concentrating reductions on wealthier localities with comparatively fewer needs and greater capacity to absorb the cuts. At the same time, redesigned formulas could hold harmless the hardest pressed areas, which are most vulnerable.

Cuts in federal grants to states could be targeted by disproportionately reducing federal funds to states with stronger tax bases and fewer needs. Cuts in federal grants to local governments could be targeted by either concentrating cuts on areas with the strongest tax bases or by changing program eligibility to restrict grant funding only to those places with lower fiscal capacity or greatest programmatic needs. As an example, during the debate in 1986 over the termination of General Revenue Sharing, GAO reported that a better targeted formula and restricted eligibility could achieve a 50-percent cut in total outlays, while maintaining or increasing federal funds to harder pressed jurisdictions. An example that illustrates the potential savings from this option is a 10-percent reduction in the aggregate total of all closed-ended or capped formula grant programs exceeding \$1 billion.<sup>30</sup> The dollar value for programs exceeding this threshold would include over 60 percent of the dollars for such programs.

<sup>30</sup>In the transportation budget function, several very small closed-ended grants could not be easily isolated in the baseline and these are included in the estimate.

**Appendix III**  
**Options for Deficit Reduction**

The savings achieved through this option could serve as a benchmark for overall savings from this approach but should not be interpreted as a suggestion for across-the-board cuts. Rather, the Congress may wish to determine specific reductions on a program-by-program basis, after examining the relative priority and performance of each grant program.

**Five-Year Savings**

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Discretionary spending					
Savings from the 1997 funding level					
Budget authority	2,903	2,903	2,903	2,903	2,903
Outlays	1,055	3,256	4,110	4,483	4,659
Savings from the 1997 funding level adjusted for inflation					
Budget authority	3,079	3,281	3,486	3,705	3,937
Outlays	1,086	3,413	4,446	5,085	5,532

**Five-Year Savings**

	FY98	FY99	FY00	FY01	FY02
Direct Spending					
Savings from the 1997 funding level adjusted for inflation					
Budget authority	4,228	4,238	4,308	4,369	4,433
Outlays	1,612	1,811	1,809	1,816	1,825

Source: Congressional Budget Office.

**Related GAO Products**

Federal Grants: Design Improvements Could Help Federal Funds Go Further (GAO/AIMD-97-7, December 18, 1996).

Public Health: A Health Status Indicator for Targeting Federal Aid to States (GAO/HEHS-97-13, November 13, 1996).

Highway Funding: Alternatives for Distributing Federal Funds (GAO/RCED-96-6, November 28, 1995).

Ryan White Care Act of 1990: Opportunities to Enhance Funding Equity (GAO/HEHS-96-26, November 13, 1995).

---

Department of Labor: Senior Community Service Employment Program Delivery Could Be Improved Through Legislative and Administrative Action (GAO/HEHS-96-4, November 2, 1995).

Rural Development: USDA's Approach to Funding Water and Sewer Projects (GAO/RCED-95-258, September 22, 1995).

Medicaid: Matching Formula's Performance and Potential Modifications (GAO/T-HEHS-95-226, July 27, 1995).

Older Americans Act: Funding Formula Could Better Reflect State Needs (GAO/HEHS-94-41, May 12, 1994).

Medicaid: Alternatives for Improving the Distribution of Funds to States (GAO/HRD-93-112FS, August 20, 1993).

Mental Health Grants: Funding Not Distributed According to State Needs (GAO/T-HRD-91-32, May 16, 1992).

Maternal And Child Health: Block Grants Funds Should Be Distributed More Equitably (GAO/HRD-92-5, April 2, 1992).

Remedial Education: Modifying Chapter 1 Formula Would Target More Funds to Those Most in Need (GAO/HRD-92-16, March 28, 1992).

Drug Treatment: Targeting Aid to States Using Urban Population as Indicator of Drug Use (GAO/HRD-91-17, November 27, 1990).

Block Grants: Proposed Formulas for Substance Abuse, Mental Health Provide More Equity (GAO/HRD-87-109BR, July 16, 1987).

Local Governments: Targeting General Fiscal Assistance Reduces Fiscal Disparities (GAO/HRD-86-113, July 24, 1986).

Highway Funding: Federal Distribution Formulas Should Be Changed (GAO/RCED-86-114, March 31, 1986).

Changing Medicaid Formula Can Improve Distribution of Funds to States (GAO/GGD-83-27, March 9, 1983).

## Option: Federal Grants

Authorizing committees	Multiple
Appropriations subcommittees	Multiple
Primary agency	Multiple
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple
Framework theme	Improve efficiency

Intergovernmental grants are a significant part of both federal and state budgets. From the first annual cash grant under the Hatch Act of 1887, the number of grant programs rose to more than 600 in 1995 with outlays of \$225 billion, about 15 percent of total federal spending. Grants serve many purposes beyond returning resources to taxpayers in the form of state services. For example, grants can serve as a tool to supplement state spending for nationally important activities. However, if states use federal grant dollars to reduce (i.e., substitute for) their own spending for the aided program either initially or over time, the fiscal impact of federal grant dollars is reduced.

Public finance experts suggest that grants are unlikely to supplement completely a state's own spending, and thus some substitution is to be expected in any grant. Our review of economists' most recent estimates of substitution suggests that every additional federal grant dollar results in less than a dollar of total additional spending on the aided activity. The estimates of substitution showed that about 60 cents of every federal grant dollar substitutes for state funds that states otherwise would have spent.

Our analysis linked substitution to the way in which most grants are designed. For example, many of the 87 largest grant programs did not include features, such as state matching and maintenance-of-effort requirements, that can encourage states to use federal funds as a supplement rather than a replacement for their own spending. While not every grant is intended to supplement state spending, proponents of grant redesign argue that if some grants incorporated more rigorous maintenance-of-effort requirements and lower federal matching rates, then fewer federal funds could still encourage states to contribute to approximately the same level of overall spending on nationally important programs. Critics of this approach argue that such redesign would put a higher burden on states because they would have to finance a greater share of federally aided programs.

The savings that could be achieved from redesigning grants to increase their fiscal impact would depend on the nature of the design changes and state responses to those changes. For example, faced with more rigorous financing requirements, states might reduce or eliminate their own financial support for the aided activity. The outcome will be influenced by the tradeoff decisions that the Congress makes to balance the importance of achieving each program's goals and objectives against the goal of encouraging greater state spending and lowering the federal deficit.

We were unable to precisely measure the budgetary impact of inflation-adjusted maintenance-of-effort requirements because current state spending levels are not reported consistently. However, it was possible to estimate the impact of changes in the matching rates on many close-ended federal grants. For example, many such grants do not require any state or local matching funds. The federal share of these programs could be reduced modestly, from 100 percent to 90 percent—a reduction unlikely to discourage states from participating in the program. CBO estimates that the introduction of a 10 percent matching requirement on some of the largest federal discretionary grant programs that are currently 100 percent federally funded and a corresponding ten percent reduction from the authorized grant levels, would reduce outlays by \$20 billion over 5 years. If such a change in match rates were combined with inflation-adjusted maintenance-of-effort requirements, states that choose to participate in the program would have to maintain the same or increase levels of program spending in order to receive federal funding.

Five-Year Savings

Dollars in millions

	FY98	FY99	FY00	FY01	FY02
Savings from the 1997 funding level					
Budget authority	3,740	3,740	3,740	3,740	3,740
Outlays	1,120	2,810	3,550	3,670	3,740
Savings from the 1997 funding level adjusted for inflation					
Budget authority	3,830	3,940	4,040	4,150	4,260
Outlays	1,150	2,910	3,750	3,970	4,150

Source: Congressional Budget Office.

Related GAO Products

Federal Grants: Design Improvements Could Help Federal Funds Go Further (GAO/AIMD-97-7, December 18, 1996).

---

**Appendix III**  
**Options for Deficit Reduction**

---

Block Grants: Issues in Designing Accountability Provisions  
(GAO/AIMD-95-226, September 1, 1995).

---

**GAO Contact**

Paul L. Posner, (202) 512-9573

Option:  
Federal Travel  
Processing

Authorizing committees	Governmental Affairs (Senate) Government Reform and Oversight (House)
Appropriations subcommittees	Multiple
Primary agency	Multiple
Account	Multiple
Spending type	Discretionary
Budget subfunction	Multiple
Framework theme	Improve efficiency

In fiscal year 1994, the federal government reported travel obligations for individuals of about \$7.6 billion—about \$5 billion for the Department of Defense (DOD) and about \$2.6 billion for the civilian agencies. This amount was for direct costs (i.e., costs directly related to travel, such as transportation, lodging, and rental cars) related primarily to two types of travel—temporary duty (TDY) and permanent relocation. The General Services Administration (GSA) currently negotiates some of these direct rates with travel vendors, at significant savings to federal agencies. The indirect costs for arranging and processing travel can be significant as well.

GAO recently reviewed a number of private-sector companies that have set themselves apart from other organizations, both public and private, by streamlining and automating their travel processes and adopting a common set of best practices. These organizations achieved improvements by consolidating travel management and processing centers, eliminating unnecessary review layers, simplifying the travel process, streamlining and automating the expense reporting process, and integrating travel processing with their financial management systems. In doing so, these organizations have saved millions of dollars in administrative costs.

DOD has recognized the need to improve travel management and has efforts underway to adopt industry best practices and reengineer its travel processing to reduce costs. In anticipation of savings related to DOD's travel reengineering efforts and based on GAO recommendations, the Appropriations Conference Committee reduced DOD's operations and maintenance (O&M) funds for fiscal year 1996 by \$128.5 million.

A handful of federal agencies, such as the Departments of State, Energy, and Transportation, have also begun to implement best practices and

reduce costs. In addition, the Joint Financial Management Improvement Program (JFMIP) travel improvement task force, made up of representatives from several agencies across government, has assessed both TDY and permanent relocation travel and estimated that hundreds of millions of dollars could be saved by implementing a number of key recommendations. JFMIP's recommendations mirror many of the best practices we found at leading organizations, including requiring the use of a corporate charge card and consolidating and automating travel data.

CBO does not disagree that savings could be achieved if agencies were able to streamline their travel processing operations. However, the amount of savings would depend on each agency's current costs and future streamlining actions.

---

**Related GAO Products**

Governmentwide Travel Management: Federal Agencies Have Opportunities for Streamlining and Improving Their Travel Practices (GAO/T-AIMD-96-60, March 8, 1996).

Business Process Reengineering: DOD Has a Significant Opportunity to Reduce Travel Costs by Using Industry Practices (GAO/T-AIMD-95-101, March 28, 1995).

---

**GAO Contact**

Jack L. Brock, Jr., (202) 512-6240

---

## Receipts

- Tax Treatment of Health Insurance Premiums
- Information Reporting on Forgiven Debts
- Administration of the Tax Deduction for Real Estate Taxes
- Corporate Tax Document Matching
- Tax Treatment of Interest Earned on Life Insurance Policies and Deferred Annuities
- Federal Agency Reporting to the Internal Revenue Service
- Independent Contractor Tax Compliance
- Deductibility of Home Equity Loan Interest
- Internal Revenue Staff Utilization
- Collecting Gasoline Excise Taxes
- Computing Excise Tax Bases
- Industrial Development Bonds Targeting
- Highway User Fees on Heavy Trucks
- Taxation of Additives to Diesel Fuel
- Electronic Filing of Tax Returns

## Option: Tax Treatment of Health Insurance Premiums

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Redefine beneficiaries

The current tax treatment of health insurance gives few incentives to workers to economize on purchasing health insurance. Employer contributions for employee health protection are considered deductible, ordinary, business expenses, and employer contributions are not included in an employee's taxable income. Some analysts believe that the tax-preferred status of these benefits has contributed to the overuse of health care services and large increases in our nation's health care costs. In addition, the primary tax benefits accrue to those in high tax brackets who also have above average incomes.

Placing a cap on the amount of health insurance premiums that could be excluded—that is including in a worker's income the amount over the cap—could improve incentives and, to a lesser extent, tax equity. Alternatively, including health insurance premiums in income but allowing a tax credit for some percentage of the premium would improve equity since tax savings per dollar of premium would be the same for all taxpayers. Incentives could be improved for purchasing low-cost insurance if the amounts given credits were capped.

One specific option the Congress may wish to consider would be to tax all employer-paid health insurance, while providing a refundable tax credit of 20 percent of all premiums, with eligible premiums capped at \$350 and \$170 per month for family coverage and individuals, respectively. This option recognizes the gain from changing the treatment of insurance only for the individual income tax, not the payroll tax. The option is effective for payments of health insurance premiums paid after December 31, 1997.

### Five-Year Revenues

Dollars in billions					
	FY98	FY99	FY00	FY01	FY02
Revenue gain	10.2	15.7	17.6	19.7	22.0

Note: JCT provided its revenue estimates in billions of dollars.

Source: Joint Committee on Taxation.

---

**Appendix III**  
**Options for Deficit Reduction**

---

<b>Related GAO Product</b>	<b>Tax Policy: Effects of Changing Tax Treatment of Fringe Benefits</b> (GAO/GGD-92-43, April 7, 1992).
----------------------------	--

---

<b>GAO Contact</b>	Lynda D. Willis, (202) 512-9110
--------------------	---------------------------------

## Option: Information Reporting on Forgiven Debts

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

The Internal Revenue Code requires taxpayers to report forgiven debts as income except under certain circumstances. GAO reviewed taxpayer compliance in reporting the Federal Deposit Insurance Corporation's (FDIC) and Resolution Trust Corporation's (RTC) forgiven debt with and without information reporting by these corporations to IRS.

Information reporting increased taxpayer compliance. For example, without information reporting, 1 percent of taxpayers voluntarily reported FDIC forgiven debts. With reporting, 48 percent voluntarily reported their forgiven debts. With the information reports, IRS was able to detect that another 20 percent had failed to report their forgiven debts, yielding 68 percent of taxpayers eventually complying.

In 1993, the Congress required information reporting on forgiven debts by FDIC, RTC, the National Credit Union Administration, credit unions, certain banks, and federal agencies. In 1996, IRS began receiving these required information returns for tax year 1995 and has been matching them to tax returns. The Congress could consider extending the requirement to other lending institutions. Revenues for this option are difficult to estimate due to uncertainties about its effect on lending institution reporting practices. However, to illustrate potential savings from this option, if the requirement were extended to finance companies, JCT estimates revenue gains of under \$50 million, assuming an effective date of January 1, 1998.

### Five-Year Revenues

Dollars in billions					
	FY98	FY99	FY00	FY01	FY02
Revenue gain	a	a	a	a	a

Note: JCT provided its revenue estimates in billions of dollars.

<sup>a</sup>A gain of less than \$50 million.

Source: Joint Committee on Taxation.

---

**Appendix III**  
**Options for Deficit Reduction**

---

Related GAO Product	<u>Tax Administration: Information Returns Can Improve Reporting of Forgiven Debts</u> (GAO/GGD-93-42, February 17, 1993).
GAO Contact	Lynda D. Willis, (202) 512-9110

---

## Option: Administration of the Tax Deduction for Real Estate Taxes

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

IRS audits show that individuals overstated their real estate tax deductions by about \$1.5 billion nationwide in 1988. GAO estimates that this resulted in a nearly \$300 million federal tax loss, which would increase to about \$400 million for 1992. However, this may understate lost revenues because GAO's review also found that IRS auditors detected only about 29 percent of \$127 million in overstated deductions in three locations GAO reviewed. Revenues could be lost not only for the federal government, but also for the 31 states which in 1991 tied their itemized deductions to those used for federal tax purposes.

Two changes to the reporting of real estate cash rebates and real estate taxes could reduce noncompliance and increase federal tax collections. First, the Congress could require that states report to IRS, and to taxpayers on Form 1099s, cash rebates of real estate taxes. Second, the Congress could require that state and local governments conform real estate tax statements to specifications issued by IRS that would separate real estate taxes from nondeductible fees, which are often combined on these statements. For estimation purposes, the proposals would be effective for rebates issued after December 31, 1998, and for amounts reported on tax bills after December 31, 1999. Together, the proposals would increase federal fiscal year revenues as shown in the table below.

### Five-Year Revenues

Dollars in billions					
	FY98	FY99	FY00	FY01	FY02
Revenue gain	0	<sup>a</sup>	0.1	0.2	0.2

Note: JCT provided its revenue estimates in billions of dollars.

<sup>a</sup>A gain of less than \$50 million.

Source: Joint Committee on Taxation.

---

**Appendix III**  
**Options for Deficit Reduction**

---

<b>Related GAO Product</b>	<u><b>Tax Administration: Overstated Real Estate Tax Deductions Need To Be Reduced</b></u> (GAO/GGD-93-43, January 19, 1993).
<b>GAO Contact</b>	Lynda D. Willis, (202) 512-9110

---

## Option: Corporate Tax Document Matching

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

Internal Revenue Service (IRS) data show that corporate compliance with tax laws has declined to an alarming degree. IRS' document matching program for payments to individuals has proven to be a highly cost-effective way of bringing in billions of dollars in tax revenues to the Treasury while at the same time boosting voluntary compliance. However, unlike payments to individuals, the law does not require that information returns be submitted on most payments to corporations.

Generally using IRS' assumptions, GAO estimated the benefits and costs for a corporate document matching program that would cover interest, dividends, rents, royalties, and capital gains. Assuming that a corporate document matching program began in 1993, GAO estimated that for years 1995 through 1999, IRS' annual costs would be about \$70 million and annual increased revenues about \$1 billion. This estimate did not factor in compliance costs and changes in taxpayer behavior. Given continuing deficits, increased corporate noncompliance, and declining audit coverage, the Congress may wish to require a corporate document matching program.

JCT has not developed an estimate of revenue gains from this proposal. JCT agrees that this option will result in increased revenues, but those revenues will depend heavily on the scope of coverage under an expanded information reporting system.

### Related GAO Product

Tax Administration: Benefits of a Corporate Document Matching Program Exceed the Costs (GAO/GGD-91-118, September 27, 1991).

### GAO Contact

Lynda D. Willis, (202) 512-9110

## Option: Tax Treatment of Interest Earned on Life Insurance Policies and Deferred Annuities

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Reassess objectives

Interest earned on life insurance policies and deferred annuities, known as "inside buildup," is not taxed as long as it accumulates within the contract. Although the deferred taxation of inside buildup is similar to the tax treatment of income from some other investments, such as capital gains, it differs from the policy of taxing interest as it accrues on certain other investments like certificates of deposit and original issue discount bonds.

Not taxing inside buildup may have merit if it increases the amount of insurance coverage purchased and the amount of income available to retirees and beneficiaries. However, the tax preference given life insurance and annuities mainly benefits middle- and upper-income people. Coverage for low-income people is largely provided through the Social Security System, which provides both insurance and annuity protection.

The Congress may want to reconsider granting preferential tax treatment to inside buildup, weighing the social benefits against the foregone revenue. The Congress may wish to consider taxing the interest earned on life insurance policies and deferred annuities. The table below reflects the estimated savings from this option, effective for life insurance policies and annuities purchased after December 31, 1997.

### Five-Year Revenues

Dollars in billions					
	FY98	FY99	FY00	FY01	FY02
Revenue gain	7.8	19.1	21.5	23.7	25.9

Note: JCT provided its revenue estimates in billions of dollars.

Source: Joint Committee on Taxation.

### Related GAO Product

**Tax Policy: Tax Treatment of Life Insurance and Annuity Accrued Interest**  
(GAO/GGD-90-31, January 29, 1990).

---

**Appendix III**  
**Options for Deficit Reduction**

---

**GAO Contact**

Lynda D. Willis, (202) 512-9110

## Option: Federal Agency Reporting to the Internal Revenue Service

Authorizing committees	Governmental Affairs (Senate) Finance (Senate) Government Reform and Oversight (House) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

According to Internal Revenue Service (IRS) data, corporate tax compliance decreased by 20 percentage points between 1980 and 1987. Information returns—reports provided to IRS by payers of interest, dividends, or other tax-related information—have proven to be highly cost-effective in generating billions of tax dollars from individual taxpayers. However, no such program exists for payments to corporations. IRS matches information return data to individuals' tax returns, which induces individuals to voluntarily report income and helps to identify those who do not. Similar results might be obtained from corporations.

Federal agencies could help increase corporate tax compliance by reporting their payments made to corporations for services. Federal agencies paid corporations about \$61 billion for service contracts of more than \$25,000 in 1990.

JCT has not developed an estimate of the revenue gains for this proposal. JCT does not disagree that improved reporting could increase compliance.

### Related GAO Product

Tax Administration: Federal Agencies Should Report Service Payments Made to Corporations (GAO/GGD-92-130, September 22, 1992).

### GAO Contact

Lynda D. Willis, (202) 512-9110

## Option: Independent Contractor Tax Compliance

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

Common law rules for classifying workers as employees or independent contractors are unclear and subject to conflicting interpretations. While recognizing this ambiguity, the Internal Revenue Service (IRS) enforces tax laws and rules through employment tax examinations. Since 1989, 90 percent of these examinations had found misclassified workers. From October 1987 through December 1991, the average IRS tax assessment relating to misclassified workers was \$68,000.

Establishing clear rules is difficult. Nevertheless, taxpayers need—and government is obligated to provide—clear rules for classifying workers if businesses are to voluntarily comply. In addition, improved tax compliance could be gained by requiring businesses to (1) withhold taxes from payments to independent contractors and/or (2) file information returns with IRS on payments made to independent contractors constituted as corporations. Both approaches have proven to be effective in promoting individual tax compliance.

During 1993, the Congress considered but rejected extending current information reporting requirements for unincorporated independent contractors to incorporated ones. Thus, independent contractors organized as either sole proprietors or corporations would have been on equal footing, and IRS would have had a less intrusive means of ensuring their tax compliance.

In recent years, various proposals on clarifying the definition of independent contractors and improving related information reporting emerged. Congressional hearings dealt with some of these bills. As of January 1997, the Congress had not acted on any of them.

JCT did not provide an estimate for this option. Estimating the revenue gains from this option is difficult. A previous estimate by the JCT showed that the proposal increased revenues by about \$400 million over 5 years. In contrast, the Department of Treasury's Office of Tax Analysis estimated a 5-year gain of about \$5 billion. Estimates can vary widely depending on the

---

**Appendix III**  
**Options for Deficit Reduction**

---

definition of independent contractor, the scope of coverage under an expanded information reporting or withholding system, and assumptions about how much more unreported income could be captured.

---

**Related GAO Product**

Tax Administration: Approaches for Improving Independent Contractor Compliance (GAO/GGD-92-108, July 23, 1992).

---

**GAO Contact**

Lynda D. Willis, (202) 512-9110

## Option: Deductibility of Home Equity Loan Interest

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of the Treasury
Spending type	Direct
Framework theme	Reassess objectives

The term home equity borrowing or financing is usually applied to mortgages other than the original loan used to acquire a home or to any subsequent refinancing of that loan. Interest is deductible on up to \$100,000 of home equity indebtedness and \$1 million of indebtedness used to acquire a home. Home equity financing grew at an average annual rate of about 20 percent between 1981 and 1991. Home equity financing is not limited to home-related uses and can be used to finance additional consumption by borrowers.

Use of mortgage-related debt to finance nonhousing assets and consumption purchases through home equity loans could expose borrowers to increased risk of losing their homes should they default. Equity concerns may exist because middle- and upper-income taxpayers who itemize primarily take advantage of this tax preference, and such an option is not available to people who rent their housing.

One way to address the issues concerning the amounts or uses of home equity financing would be to limit mortgage interest deductibility to the first \$300,000 of indebtedness for the taxpayer's principal and second residence. Assuming an effective date of January 1, 1999, this option would generate the following revenues.

### Five-Year Revenues

Dollars in billions					
	FY98	FY99	FY00	FY01	FY02
Revenue gain	0	1.9	2.7	2.9	3.1

Note: JCT provided its revenue estimates in billions of dollars.

Source: Joint Committee on Taxation.

### Related GAO Product

Tax Policy: Many Factors Contributed to the Growth in Home Equity Financing in the 1980s (GAO/GGD-93-63, March 25, 1993).

---

**Appendix III**  
**Options for Deficit Reduction**

---

**GAO Contact**

Lynda D. Willis, (202) 512-9110

## Option: Internal Revenue Service Staff Utilization

Authorizing committees	Appropriations (Senate and House) Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

The allocation of IRS' collection staff has not been based on the relative productivity of its collection programs. Some of the more productive programs, such as IRS automatic call sites, have not reached their full potential because staff are assigned to less productive field collection activities. The productivity of collection staff also varies greatly among collection locations.

More emphasis on contacting delinquent taxpayers early using telephone collection techniques and allocating staff based on productivity should increase collections. A rough GAO estimate indicated that the reassignment of about 1,000 staff from field collections—the least productive use of staff—to telephone collections could increase collections by about \$1.2 billion per year.

IRS' fiscal year 1997 budget included a decrease of 1,341 full-time equivalent positions in tax enforcement job categories, such as field revenue officers and revenue agents, that engage in face-to-face audit and collection activities. IRS' budget stated that although "these positions still comprise the lion's share of IRS enforcement efforts, they also represent, on the margin, the least efficient use of IRS resources."

On the other hand, because of other budget decisions, IRS targeted its telephone collection activity for a significant staff reduction in fiscal year 1997. IRS officials subsequently decided that the impact of this staff reduction would be too severe. As a result, they negotiated with the National Treasury Employees Union to allow for the temporary transfer of about 300 revenue officers and other compliance staff to telephone collections for at least 1 year.

Although CBO does not disagree that better utilization of IRS staff can increase revenues, it does not make budget estimates of such increases. This is because it is difficult to establish a clear connection between changes in staff allocations and revenue gains. In addition, even if such a

---

connection can be established, the magnitude of such gains attributable to reallocation is not certain enough for budget scorekeeping purposes.

---

**Related GAO Products**

Tax Administration: New Delinquent Tax Collection Methods of IRS  
(GAO/GGD-93-67, May 11, 1993).

Tax Administration: Improved Staffing of IRS' Collection Function Would Increase Productivity (GAO/GGD-93-97, May 5, 1993).

Internal Revenue Service Receivables (GAO/HR-93-13, December 1992).

Tax Administration: IRS' System Used in Prioritizing Taxpayer Delinquencies Can Be Improved (GAO/GGD-92-6, March 26, 1992).

Tax Administration: Efforts To Prevent, Identify, and Collect Employment Tax Delinquencies (GAO/GGD-91-94, August 28, 1991).

---

**GAO Contact**

Lynda D. Willis, (202) 512-9110

---

**Option:  
Collecting Gasoline  
Excise Taxes**

---

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

---

Although reliable statistical data do not exist to estimate gasoline excise tax evasion, the Department of Transportation estimated in a report to the Congress that such evasion amounted to about \$500 million annually. From a tax administration perspective, moving the collection point for gasoline excise taxes from the terminal to the refinery level may reduce tax evasion because (1) gasoline would change hands fewer times before taxation, (2) refiners are presumed to be more financially sound and have better records than other parties in the distribution system, and (3) fewer taxpayers would be involved. However, industry representatives raise competitiveness and cost-efficiency questions associated with moving the collection point.

In a May 1992 report, GAO suggested that the Congress explore the level of gasoline excise tax evasion and, if it was found to be sufficiently high, move tax collection to the point at which gasoline leaves the refinery. The amount of revenue that would be generated from moving the collection point for gasoline excise taxes would depend on the accuracy of the \$500 million estimate of evasion and how well the move curbed such evasion.

JCT agrees that this option has the potential for increased revenue but has not developed estimates of revenue gains.

---

**Related GAO Product**

Tax Administration: Status of Efforts to Curb Motor Fuel Tax Evasion  
(GAO/GGD-92-67, May 12, 1992).

---

**GAO Contact**

Lynda D. Willis, (202) 512-9110

## Option: Computing Excise Tax Bases

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

Federal excise taxes are sometimes set at a fixed dollar amount per unit of taxed good. For example, alcoholic beverages are taxed at a set rate per gallon or barrel, with the rate varying for different types of beverages and differing concentrations of alcohol. When set in this manner, the real dollar value of the tax falls with inflation.

The real dollar value of these taxes can be maintained over time if the tax is indexed for inflation or set as a percentage of the price of the taxed product or service. Tax policy issues would need to be considered, and administrative difficulties may be encountered, but they are not insurmountable. Of the five excise taxes GAO studied in 1989, alcohol and tobacco taxes yielded over 99 percent of the increased revenue that indexing would have generated. The Congress may wish to consider indexing excise tax rates for alcohol and tobacco. The table below reflects the estimated savings from this option with an effective date of January 1, 1998.

### Five-Year Revenues

Dollars in billions					
	FY98	FY99	FY00	FY01	FY02
Revenue gain	0.2	0.5	0.7	1.1	1.3

Note: JCT provided its revenue estimates in billions of dollars.

Source: Joint Committee on Taxation.

### Related GAO Products

Alcohol Excise Taxes: Simplifying Rates Can Enhance Economic and Administrative Efficiency (GAO/GGD-90-123, September 27, 1990).

Tax Policy: Revenue Potential of Restoring Excise Taxes to Past Levels (GAO/GGD-89-52, May 9, 1989).

### GAO Contact

Lynda D. Willis, (202) 512-9110

## Option: Industrial Development Bonds Targeting

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of the Treasury
Spending type	Direct
Framework theme	Reassess objectives

The interest earned on certain bonds used by private entities is tax-exempt because the activities financed are considered to produce public benefits. The "private activity bonds" are issued by state and local governmental authorities who provide the proceeds to private entities to finance, among other things, the creation or expansion of manufacturing facilities. Such private activity bonds are commonly referred to as Industrial Development Bonds (IDBs).

Critics of IDBs argue that the benefits from private activity caps are ill-defined. While IDBs clearly provide benefits to the private companies and to investors, there is no clear consensus on whether the bonds achieve public benefits. Proponents of the bonds argue that IDBs can indeed achieve public benefits, such as creating jobs, assisting economically distressed areas, fostering start-up companies, and keeping manufacturing firms in the country. However, IDBs do not appear to be targeted to states with large concentrations of communities in fiscal distress and possibly greatest need for bond market intervention. The Tax Reform Act of 1986 imposed a limit (volume cap) that restricts the amount of bonds a state may issue to the greater of \$50 per state resident or \$150 million.

This option illustrates three ways in which the Congress could choose to reduce the tax losses associated with IDBs. If reductions in the cap were targeted, states with highest concentrations of fiscal stress could be spared the cuts while the deepest cuts were applied to states with the lowest concentration of communities in fiscal stress. For example, this approach would cut 25 percent from the cap in a state with a majority of communities in fiscal stress and 75 percent from the cap in states with low concentrations of communities in fiscal stress. This approach would reduce the caps by 23 percent for net revenue gains of \$800 million over 5 years.

Another approach would simply be to reduce the cap proportionally across all states. The 1995 cap was allocated to all states in such a way as to ensure a minimum of \$150 million. Many states received more than

\$150 million, however no states received less than this amount. If the minimum allocation were reduced by \$50 million and proportionally reduced in all states that received more than \$150 million, the total cap would be reduced by 48 percent.

Still another approach would be to both reduce the cap proportionally across all states and to target additional cuts to states with low concentrations of communities in fiscal stress. Such an approach would yield a 56 percent reduction in the caps.

JCT estimates that the first option, targeting reductions in the cap for bonds issued after December 31, 1997, would result in the following revenue gain.

Five-Year Revenues

	FY98	FY99	FY00	FY01	FY02
Revenue gain	<sup>a</sup>	0.1	0.2	0.2	0.3

Note: JCT provided its revenue estimates in billions of dollars.

<sup>a</sup>A gain of less than \$50 million.

Source: Joint Committee on Taxation.

Related GAO Product

Industrial Development Bonds: Achievement of Public Benefits Is Unclear  
(GAO/RCED-93-106, April 22, 1993).

GAO Contacts

Paul L. Posner, (202) 512-9573  
Judy A. England-Joseph, (202) 512-7631

## Option: Highway User Fees on Heavy Trucks

Authorizing committees	Commerce, Science, and Transportation (Senate) Transportation and Infrastructure (House)
Primary agency	Department of Transportation
Spending type	Direct
Framework theme	Redefine beneficiaries

To develop and maintain highways, the Federal Highway Administration (FHWA) collects user fees. In fiscal year 1993, FHWA collected over \$18.5 billion from four user fees: fuel taxes, a heavy vehicle use tax, a new vehicle excise tax, and an excise tax on heavy tires. In 1982, FHWA reported that heavy trucks underpaid by about 50 percent their fair share relative to the pavement damage that they caused. FHWA also reported that lighter trucks were overpaying by between 30 and 70 percent (depending on weight), and automobiles were overpaying by 10 percent.

To increase highway revenues and to respond to the FHWA study, the Congress in 1982 passed the first major increase in federal highway use taxes since 1956. To increase revenues, the Congress raised gasoline and diesel taxes from 4 cents to 9 cents per gallon. To improve equity, the Congress mandated that the ceiling for the heavy vehicle use tax be increased from \$240 a year to \$1,900 a year by 1989. In response to the concerns of the trucking industry about the new tax structure, the Congress again revised the system in the Deficit Reduction Act of 1984. Under the act, the ceiling for the heavy vehicle use tax was lowered from \$1,900 to \$550 a year. To ensure that this action was revenue neutral, the Congress raised the tax on diesel fuel from 9 cents to 15 cents per gallon.

As we recommended in June 1994, FHWA is conducting a formal cost allocation study to determine whether all highway users are paying their fair share of federal highway costs. FHWA plans to complete this study by early 1997. If this study finds that heavy trucks underpay their share, one solution could be to base the truck's fees on vehicle weight and distance traveled—a method currently employed by six states. The precise revenue gain from this action would depend on the type and amount of user fee increases. Increasing fuel taxes, the heavy vehicle use tax, the new vehicle excise tax, and the excise tax on heavy tires would generate additional revenues. For example, in fiscal year 1994, heavy truck operators paid about \$620 million in heavy vehicle use taxes. Raising the ceiling on this

---

**Appendix III**  
**Options for Deficit Reduction**

---

fee from \$550 to \$1,900 per user could raise between \$800 million and \$1 billion.

JCR does not disagree that this option could yield revenue. However, an estimate of revenue gains is not available at this time.

---

**Related GAO Product**

Highway User Fees: Updated Data Needed To Determine Whether All Users Pay Their Fair Share (GAO/RCED-94-181, June 7, 1994).

---

**GAO Contact**

John H. Anderson, Jr., (202) 512-2834

## Option: Taxation of Additives to Diesel Fuel

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

The federal government generally imposes an excise tax of 24.4 cents per gallon on diesel fuel that is used on highways. Diesel fuel for off-highway use, such as home heating, is not taxed. In addition, certain entities, such as state and local governments, are exempt from paying tax on diesel fuel they use on highways. This excise tax is collected at the fuel terminal and any diesel fuel removed from a terminal for tax-free use must be dyed.

Diesel fuel additives, primarily kerosene, may be added to tax-paid diesel fuel after it leaves the terminal where taxes are collected. Fuel excise taxes are intended to be collected on each gallon of fuel used on the highway, including any additives, so that the tax revenues can be used to maintain and improve the highway system. Under current federal excise tax regulations, kerosene is not treated as a diesel fuel and is generally neither taxed nor dyed when removed from the terminal. However, undyed tax-free kerosene can be used in blending schemes that could result in excise tax evasion. For example, a dishonest retailer could take two gallons of tax-paid diesel fuel and mix it with one gallon of undyed kerosene on which no tax has been paid. The retailer now has three gallons of "cocktailed" diesel fuel, but has only paid tax on two gallons of the product.

In January 1996, GAO reported that under current IRS regulations, kerosene is not treated as a diesel fuel and is generally neither taxed nor dyed when removed from the terminal, although it may ultimately be used as a highway fuel. Other uses of kerosene, such as for home heating, complicate its taxation. Nevertheless, in July 1995, the Treasury Department expressed support for subjecting kerosene to the same dyeing requirements as those applied to diesel fuel. The Congress may wish to consider dyeing nontaxed kerosene in order to improve and increase collection of fuel excise taxes. The table below reflects the estimated revenues from this option with an effective date of July 1, 1998.

---

**Appendix III**  
**Options for Deficit Reduction**

---

**Five-Year Revenues**

Dollars in billions

	FY98	FY99	FY00	FY01	FY02
Revenue gain	a	a	a	a	a

Note: JCT provided its revenue estimates in billions of dollars.

<sup>a</sup>A gain of less than \$50 million.

Source: Joint Committee on Taxation.

---

**Related GAO Products**

Tax Administration: Diesel Fuel Excise Tax Change (GAO/GGD-96-53, January 16, 1996).

Tax Administration: Status of Efforts to Curb Motor Fuel Tax Evasion (GAO/GGD-92-67, May 12, 1992).

---

**GAO Contact**

Lynda D. Willis, (202) 512-9110

## Option: Electronic Filing of Tax Returns

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

Electronic filing sends data directly on-line to Internal Revenue Service (IRS) computers, thereby eliminating manual handling of paper, disks, computer tapes, and cartridges, which significantly reduces processing time and cost. For example, electronically filed information returns can be fully processed and entered into IRS' computers within 2 days compared with an average of 58 days for magnetic media shipments. Math errors on electronic returns are identified by the system and corrected by the taxpayer before IRS accepts the return. Electronic returns also avoid the error-prone manual data entry system IRS uses to process paper returns. Fewer errors mean fewer notices to taxpayers and less time spent with the resulting telephone calls and correspondence.

Electronic filing can enhance IRS' compliance efforts. However, of the 777 million nonwage information returns IRS processed in 1994, only 12.6 million (1.6 percent) were filed electronically. Of the 118 million individual income tax returns filed in 1996, only 15 million (12.7 percent) were filed electronically. Electronic filing of information returns would enable IRS to match more of these documents sooner to tax returns. For example, matching information returns on partnership income (Schedule K-1) to individual tax returns has been a cost-effective means of detecting and assessing taxes on unreported partnership income. But few Schedule K-1s have been matched. For tax year 1991, GAO estimated that had IRS been able to match all Schedule K-1s, it could have assessed about \$220 million in additional taxes. Similarly, with electronic returns, IRS can more effectively and efficiently validate social security numbers—a key control against refund fraud—because up-front filters prevent the submission of electronic returns with invalid social security numbers. IRS cannot identify invalid social security numbers on paper returns until after the returns are filed, and the number of problem cases it can work is limited by the amount of available staff.

Not only is the number of electronic returns relatively low, but the returns being filed electronically are generally those that contribute least to paper-processing workload and operating costs. For example, on the basis

---

of IRS' 1993 service center processing cost estimates, it cost IRS \$4.53 to process a paper Form 1040, \$3.95 to process a paper Form 1040A, and \$3.36 to process a paper Form 1040EZ. The most costly of the three (Form 1040) accounted for about 59 percent of all individual returns (paper and electronic) processed in 1994, yet Form 1040 accounted for only about 20 percent of the individual returns filed electronically.

To reduce processing costs and increase compliance revenues, IRS needs to develop and implement a strategy for significantly increasing the number of returns filed electronically. We have recommended that IRS identify those groups of taxpayers who offer the greatest opportunity to reduce IRS' paper-processing workload and operating costs if they were to file electronically and develop strategies that focus IRS' resources on eliminating or alleviating impediments that inhibit those groups from participating in the program, including the impediment posed by the program's cost. No cost savings or revenue enhancement estimates can be made until IRS develops these strategies.

---

**Related GAO Products**

Tax Administration: Electronic Filing Falling Short of Expectations  
(GAO/GGD-96-12, October 31, 1995).

Tax Administration: IRS' Partnership Compliance Activities Could Be Improved (GAO/GGD-95-151, June 16, 1995).

---

**GAO Contact**

Lynda D. Willis, (202) 512-9110

# Options Not Updated for This Report

The following table provides information on options from last year's report<sup>31</sup> that were not updated due to congressional or agency action or other factors.

Option	Comments
Improved Material Management Can Reduce Shipyard Costs	See new option on Navy financial management of operating materials and supplies.
Reduce Army's Unfilled War Reserve Requirements by Using Other Inventory Items	See new option on defense inventories reform.
MK-48 Advanced Capability Torpedo Propulsion System	Since the time this option was included in last year's report, the Navy has purchased the MK-48 propulsion improvements.
Reassess Defense Conversion Spending	The Congress terminated funding for the centerpiece of the defense conversion initiative—the Technology Reinvestment Project.
Improve Controls Over Payments to Defense Contractors	In our 1997 high-risk series, <sup>a</sup> we pointed out that DOD has recognized problem disbursements as a major area of concern and is working hard to reduce them. However, we also noted that our preliminary work on DOD's reporting on problem disbursement data indicates that reported amounts are substantially understated and raises concerns over whether DOD has sufficient, reliable information to determine the extent to which disbursement problems have been reduced. We have several ongoing reviews directed at identifying opportunities for additional corrective actions.
Negotiate More Realistic Environmental Agreements	The Department of Energy's Environmental Management Program is in the process of developing a new 10-year plan that will represent a more national approach to the cleanup and should result in more realistic cleanup agreements.
U.S. Contribution to the International Fund for Agricultural Development	The United States has committed to pay \$30 million to the Fund in six installments, beginning in 1997, and may make additional contributions on a voluntary basis. However, the United States has decided that it will not participate in any future Fund replenishments.
Shortwave Radio Modernization Program	The Voice of America (part of the U.S. Information Agency) has either completed or scaled back all projects in the modernization plan. The only new construction currently planned is for a facility on Tinian Island to support Radio Free Asia.
Privatize Uranium Enrichment Program	As a result of recent amendments to the Energy Policy Act of 1992, CBO assumes that the United States Enrichment Corporation will be privatized in fiscal year 1998. We continue to recommend that the Secretary of the Treasury consider ways to ensure that the government is protected from an undervalued sale when the Corporation is sold.

(continued)

<sup>31</sup>Addressing the Deficit: Budgetary Implications of Selected GAO Work for Fiscal Year 1996 (GAO/OCG-96-5, June 28, 1996).

**Appendix IV**  
**Options Not Updated for This Report**

Option	Comments
Privatize the Naval Petroleum Reserve-1	The Defense Authorization Act (Public Law 104-106) established a schedule for selling the reserve by February 1998, unless DOE and OMB determine that selling the reserve is not in the interest of the United States or the proceeds are unlikely to reflect the reserve's fair market value. CBO's baseline assumes the reserve will be sold in fiscal year 1998.
Consolidate Strategic Petroleum Reserve	In fiscal year 1996, the Congress required DOE to sell enough oil from the strategic petroleum reserve to pay for the cost of operating the reserve. CBO assumes that this funding mechanism will continue to be used. As a result, mothballing a storage site would reduce the reserve's operating costs but would also alleviate the need to sell a requisite amount of oil. Therefore, mothballing would conserve the reserve's oil but would not contribute to deficit reduction.
National Oceanic and Atmospheric Research Fleet Modernization	Based on a series of reports on the National Oceanic and Atmospheric Administration's (NOAA) fleet modernization, including prior GAO reports, the Inspector General of the Commerce Department issued a March 1996 report recommending that the entire NOAA fleet be eliminated.
Consolidation of U.S. Department of Agriculture Food Assistance Programs	The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 consolidates two food assistance programs—the Emergency Food Assistance Program and Soup Kitchens/Food Banks. Consolidating these programs should give states greater flexibility to more effectively target resources to alleviate hunger and help streamline federal, state, and local administration of USDA's distribution of these commodities.
Social Security Continuing Disability Reviews (CDRs)	The Contract with America Advancement Act of 1996 increased authorized funding for CDRs to almost \$3 billion by 2002. With this and other funding earmarked from its administrative budget, SSA plans to eliminate the backlog of CDRs for disabled workers under age 59. While we believe that the program could be administered more cost effectively and that SSA's plan excludes some beneficiaries in the backlog, this option was not included because the potential for additional budget deficit reduction is not significant.
Justice's Use of Private Counsel to Collect Civil Debt	The Omnibus Consolidated Rescissions and Appropriations Act of 1996 gives the Attorney General permanent authority to hire private debt contractors to collect a nontax debt or claim owed to the United States. The Department of Justice currently has contracts in 13 judicial districts.
Global Positioning System (GPS) Technology	In our report on global positioning systems (GPS), we recommended that the Office of Management and Budget develop a stronger coordination mechanism for managing future federal GPS activities. Consistent with our recommendation, in March 1996, a Presidential Decision Directive established DOT as the lead agency for all federal civil GPS matters.

(continued)

**Appendix IV**  
**Options Not Updated for This Report**

Option	Comments
Federal Agency Credit Management Programs	The Debt Collection Improvement Act of 1996 provided agencies with several new debt collection tools. Treasury is developing plans for, and beginning to implement, the requirements of the act.
Improving Compliance of Sole Proprietors	The Internal Revenue Service has created a tracking system to manage its sole proprietor compliance projects and has been using its Taxpayer Compliance Management Program data to help identify projects that would address the most noncompliant sole proprietors. The agency has also reached an agreement with the trucking industry that should improve the industry's tax recordkeeping.

\*See the high-risk series reports Defense Financial Management (GAO/HR-97-3, February 1997) and Defense Contract Management (GAO/HR-97-4, February 1997).

# Major Contributors to This Report

---

Accounting and  
Information  
Management Division,  
Washington, D.C.

Thomas M. James, Assistant Director  
Claudia J. Dickey, Senior Evaluator  
Laura E. Hamilton, Senior Evaluator  
Bill J. Keller, Senior Evaluator

---

### **Ordering Information**

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

**Orders by mail:**

U.S. General Accounting Office  
P.O. Box 6015  
Gaithersburg, MD 20884-6015

**or visit:**

Room 1100  
700 4th St. NW (corner of 4th and G Sts. NW)  
U.S. General Accounting Office  
Washington, DC

Orders may also be placed by calling (202) 512-6000  
or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

**info@www.gao.gov**

**or visit GAO's World Wide Web Home Page at:**

**http://www.gao.gov**